



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE

Tuesday 4 May 2010

Session 3

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TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE
12th Meeting 2010, Session 3

CONVENER

*Patrick Harvie (Glasgow) (Green)

DEPUTY CONVENER

*Cathy Peattie (Falkirk East) (Lab)

COMMITTEE MEMBERS

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

COMMITTEE SUBSTITUTES

Alasdair Allan (Western Isles) (SNP)
Murdo Fraser (Mid Scotland and Fife) (Con)
David Stewart (Highlands and Islands) (Lab)
Jim Tolson (Dunfermline West) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

John Barrett (Stockholm Environment Institute)
Gavin Barrie (Scottish Government Energy Directorate)
Chas Booth (Association for the Conservation of Energy)
Phil Matthews (Sustainable Development Commission Scotland)
Duncan McLaren (Friends of the Earth Scotland)
Stewart Stevenson (Minister for Transport, Infrastructure and Climate Change)
Dave Watson (Unison)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 2

Scottish Parliament

Transport, Infrastructure and Climate Change Committee

Tuesday 4 May 2010

[The Convener opened the meeting at 13:51]

Decision on Taking Business in Private

The Convener (Patrick Harvie): Good afternoon, everyone. I welcome you all to the 12th meeting this year of the Transport, Infrastructure and Climate Change Committee. I apologise for beginning the meeting a few minutes late. I remind everybody that all mobile devices should be switched off. We have not received any apologies from members in advance of the meeting, but people may be aware that there are distractions this week. You can judge for yourselves what the turnout for today's meeting is likely to be.

There are three items on the agenda, the first of which is a proposal to take item 3, which is consideration of our draft report on the budget strategy phase 2011-12, and any future consideration of draft reports on that, in private. Is that agreed?

Members indicated agreement.

Budget Strategy Phase 2011-12

13:52

The Convener: The main item on today's agenda is an evidence session on the budget strategy phase 2011-12. We will hear from three panels of witnesses. The first comprises John Barrett, a senior research associate from the Stockholm Environment Institute, and Phil Matthews, senior policy adviser at the Sustainable Development Commission Scotland. I welcome you both to the committee—thank you for joining us.

At last week's meeting, the committee heard various arguments about the connection between the economic downturn—the recession—and greenhouse gas emissions. There are probably a range of different views, but I want to explore your views on the relationship between the recession and emissions. Do we know enough about what has happened to emissions due to the economic circumstances? Please explore that topic for me.

John Barrett (Stockholm Environment Institute): Good afternoon. Yes, there is a strong relationship between economic growth and carbon emissions. There is a lot of evidence to demonstrate that and a number of analyses that we have carried out have shown that economic growth is the strongest driver of emissions of all the different components. Any increase in final demand always results in an increase in emissions and vice versa, so our view is that they are intrinsically linked. There has been a relative decoupling of the two—one has grown at a faster pace than the other—but at this stage there is no sign of a complete decoupling of economic growth and greenhouse gas emissions.

The Convener: Are you able to say anything about the impact that the current recession will have had on emissions?

John Barrett: It is early days and there is quite a lot of uncertainty, partly because the data on environmental accounts and all the economic data have not yet caught up. There is usually a three-year time lag before we can be completely sure about the data. Potentially we are looking at a reduction in emissions of between 6 and 9 per cent due to the recession.

Phil Matthews (Sustainable Development Commission Scotland): I agree with everything that John Barrett has said. That is clear. The Sustainable Development Commission Scotland is interested in the link between economic development and carbon emissions. We produced our report "Prosperity without Growth?—The transition to a sustainable economy" last year, and this year one of our focuses at a United Kingdom

level is a bit of research on prosperity without energy growth. If, as most people want, we move back towards a growing economy, what will the challenge be for emissions? How do we ensure that we achieve the decoupling that, as John Barrett said, we have not achieved to date?

The Convener: Are you able to say anything about the emissions reductions that will result from the recession in different sectors of the economy? Will there be a greater connection between the recession and emissions in some industries or sectors than in others?

John Barrett: It is a little early to be precise about that, but the energy sector is linked more strongly to emissions than other sectors are. We do not see significant reductions in energy consumption by households and are likely to see more reductions in the goods and services sectors at this stage. However, the carbon intensity of those sectors is usually slightly lower—at least, that is the case for services—than that of the large manufacturing sectors. We have a greater understanding of how the energy sector will behave than others.

The Convener: What about the trajectory that the Scottish Government proposes for its emissions cuts over the next few years? Should we examine what happens in the recession and use it as an opportunity to propose a more ambitious trajectory by reprofiling the annual targets to aim to retain over the coming years the cuts in emissions that have happened?

John Barrett: We would have to be clear that we could not claim the emissions reductions as being due to active policy unless it was an active policy to go into recession, which I guess that it was not. The United Kingdom Department of Energy and Climate Change has not been 100 per cent clear on that. It recognises the recession but also points to the success of its policy. Who has done what is blended and merged a bit more than it could have been.

We must revise the targets in the UK and Scottish budgets up to 2022 to take the dip into account simply because the targets that are in place will not lead to the future that we need to avoid some of the most dangerous consequences of climate change: a future in which the temperature does not rise more than 2°C. The current trajectory will not achieve that, but the recession reductions could give us an opportunity to realign and to take a cumulative greenhouse gas emission perspective to ensure that avoiding a future rise of 2°C is a real possibility.

Phil Matthews: We welcomed the Scottish Government's reaffirming of the target of a 42 per cent reduction by 2020. That is crucial to the success of any climate change action in Scotland.

We also support the integration of the advice from the Committee on Climate Change. The Scottish Government should hold to that. It has done so and, indeed, has gone slightly further in the first couple of years. As John Barrett said, we will now see a significant dip in emissions. The question is whether we want to respond with further reductions and, even if we do not, how we ensure that any appraisal shows that the short-term success is nothing to do with underlying trends in emissions or the actions of Government but, instead, is a result of the knock-on effects of a recessive period in the economy.

The Convener: Can you give any examples of mitigation and adaptation measures not only that we need to take but that are good for the Scottish budget as well as for our greenhouse gas targets?

John Barrett: There is a clear link between spending, final demand and greenhouse gas emissions, which means that any cut could reduce the upstream consequences of greenhouse gases. It is unfortunate that those elements are so closely connected but the fact that they are offers further opportunities to tackle the issue. Therefore, it is important to reduce expenditure in the carbon-intensive sectors—those that have the highest carbon intensity per pound spent in the economy—and take the whole of the upstream consequence of that expenditure into account.

We have carried out such an analysis for the national health service. Focusing in particular on the pharmaceutical sector, which not only is one of the most carbon-intensive sectors but incurs great expenditure and great waste, the NHS has identified a whole list of expenditure savings that relate directly to greenhouse gas emissions and has come to an understanding of what expenditure means for such gases. Those kinds of opportunities exist all over.

Those are the upstream impacts of expenditure, but the fact is that the downstream impacts are probably even greater. Our choosing not to carry on investing in unsustainable infrastructure such as large motorway and road networks would reduce not only the upstream impacts of carbon-intensive material use but downstream impacts through efforts to curb the growth in demand for transport. In a way, there is no reason why money saving and carbon reduction policies cannot go hand in hand.

14:00

The Convener: It would not be hard to convince me of the arguments about transport infrastructure, but the fact is that some of the decisions that you have referred to have not been taken. Are there any other new ideas for reducing carbon emissions and saving money on the

Scottish budget that the Government might not find as hard to adopt? Reducing spending might well reduce the Government's emissions but, if we are seeking to reduce emissions in Scotland as a whole, we might need to spend more, not less, on buildings and energy generation.

John Barrett: I see your point. However, Scottish Government expenditure will have downstream effects on household emissions. Such a saving exists, and infrastructure will be extremely important in that respect.

There is no doubt that there is a need for new infrastructure developments. For example, we are just finishing a piece of work for the United Kingdom Committee on Climate Change on the complete indirect impacts of the new energy infrastructure, the building of which will need to have quite high emission allocations. We must concentrate on where in the most carbon-intensive areas we can reduce demand; in transport, for example, the issue is not just the infrastructure that is in place but how we cope with demand. In that respect, reducing expenditure in households and the housing sector could be quite bad—although in other areas I think that we might be able to reduce carbon emissions by reducing expenditure, I would certainly prioritise as a key item of expenditure the retrofit programmes that need to be carried out quickly and in a radical way.

The Convener: Phil, do you have any win-win ideas to add?

Phil Matthews: Yes. As you say, convener, there needs to be extra investment in, for example, community energy improvements. However, given the financial constraints, such investment should be made at the most appropriate level. A lot of evidence suggests that the current piecemeal and community-level approach is much more efficient in delivering outcomes, and ideally we need to focus the money where we will get wider social, economic and environmental benefits.

As John Barrett says, we also need to look again at our large infrastructure. Investment needs to be made in certain areas of transport including new rail services. However, given the financial constraints, we should also consider the many examples of the Government focusing, particularly in some of its work on smarter choices, smarter places, not on large capital investment but on direct community engagement coupled with modest investment in infrastructure. For example, in one of the seven smarter choices, smarter places pilots—Barrhead—some paths in the local park have been improved and local people, many of whom are not active and do not take exercise every day, have been engaged. That approach has delivered not only health and carbon-saving benefits but wider community benefits such as

social mobility. Sometimes, large capital projects are desired because they are grand and impressive, but exactly the same and, indeed, even better outcomes can be achieved with lower-key, smaller-scale projects that directly involve the community.

Cathy Peattie (Falkirk East) (Lab): You will be aware that the Climate Change (Scotland) Act 2009 contains a commitment to public engagement. Will that public engagement make a difference by spreading out actions, such as the exciting pilots that we have talked about, to encourage people to think about their role?

Phil Matthews: Yes—absolutely. That is a low-cost measure—behaviour change is about as low in cost as anything to which one can aspire. If it is done properly, it does not require a huge amount of capital and it can yield longer-term benefits for people and communities, too.

My organisation helps to support the climate challenge fund. As you know, a report on that will be produced in the next year or so. It will be interesting to see the lessons that are learned and what has worked. It is important for the Government to take on board the lessons from the fund and from smarter choices projects. Such activities must be more proactively mainstreamed, as they are—we hope—carbon effective and low cost.

Cathy Peattie: A recent briefing from the Stockholm Environment Institute said:

“The carbon footprint in Scotland is increasingly driven by emissions from production processes abroad.”

What impact will the economic downturn have on the relationship between territorial and consumer emissions from production processes abroad?

John Barrett: My prediction or estimate—whatever you want to call it—is that emissions will reduce reasonably in tandem with that. That is partly because a recession often results in lower expenditure on goods and services, which are the imported components of Scotland's footprint. I feel that emissions will reduce slightly over time, but we must remember that Scotland's carbon footprint has increased in the past 15 years, which we covered in the report. That means that emissions will still not be lower than those 15 years ago. Emissions will not reduce significantly to that level, but the recession will mean a slight reduction in consumer and territorial emissions.

Cathy Peattie: Should the Government take action to produce a reduction sooner?

John Barrett: In consumer emissions or territorial emissions?

Cathy Peattie: In both.

John Barrett: Without a doubt, the Government should take such action. The cumulative emission perspective is extremely important. Having an 80 per cent target for a certain period has the danger of leading to very different amounts of carbon in the atmosphere.

We have produced a global model that allocates emissions to countries on the basis of population. In that model, the current budgets in the UK and in Scotland make it impossible to achieve a 2° future with a 75 per cent probability of that happening by 2050. We still have the chance to hold on to a probability of about 50 per cent, which we are down to already. From a cumulative perspective, early action yields considerable rewards.

Cathy Peattie: I like the idea of early action.

Both your organisations have expressed concern about greenhouse gas emissions and transport, which we have discussed already. What exactly are your concerns about transport in Scotland? What impact might budget reductions have on the sector's ability to contribute to emissions reductions?

Phil Matthews: I have talked about some of that. We have mentioned to the committee before work that we are doing on sustainable transport, which we hope finally to publish in the near future. We are also interested in seeing the Government's refresh of the national transport strategy, which will be a crucial document for encapsulating the carbon agenda and the wider health and community agenda in transport policy.

As I said, our fundamental concern is that transport emissions continue to rise at a time when emissions from other sectors are reducing. That implies that we need to address the situation. Nobody pretends that doing so is easy but, as I said, many softer infrastructure measures, many community engagement measures and much work on planning are fundamental to creating a lower-carbon future.

We met the Government the other week to discuss the "Low Carbon Wales" report, which my Welsh colleagues developed with the Welsh Assembly Government. That considers how best to undertake carbon planning in different regions throughout Wales. Such planning involves the Government, the private sector, academic institutions and communities.

A range of measures can be taken in relation to planning and transport to help to deliver reductions, which could cost far less than the present approach.

John Barrett: The increase in demand for transport has still not been tackled. There seems to be no clear answer on how we tackle it, but the issue will not go away. The growth in demand for

transport means that the whole carbon budget will be allocated to transport by about 2030, so demand management within transport is a necessity. That growth in carbon emissions from transport will occur in the context of significant efficiency improvements in each kilometre or mile travelled, so tackling growth on the demand side is what is lacking.

We have reached the time when we really need to turn pilots into reality. The list of smarter choices projects that was published about 10 years ago provided an insight into all the benefits of individualised marketing and other social methods of controlling demand, but the projects are still at the pilot stage and have still to be rolled out. They need to be rolled out on a larger scale, given that there has been enough evidence for them since about five years ago.

In tandem with that, we must not counteract the benefits of demand management projects by expanding infrastructure that increases people's desire to travel. Some consistency is needed. If infrastructure projects pull us one way while those soft measures pull us in the other, we might just end up where we started. We need consistency and we need those large-scale, demand-side projects to be rolled out.

Cathy Peattie: If we do not roll out those pilots and put in place the necessary measures, will we fail to meet our early and longer-term targets because of a failure to build on progress year on year?

John Barrett: I do not know exactly whether the transport impacts will counteract any benefits that might be made in the energy system. I would need to look at the figures on that in more detail. However, given growth of 3 to 4 per cent per year, those benefits could be counteracted quite easily.

In addition, it might get more and more difficult to change the culture. The more that we have a system that encourages people to expect to travel ever further, the more difficult it will be to pull people back from what will have become the cultural norm. For example, just as flying is now the cultural norm whereas that was not the case 30 years ago, travelling 15,000km or 20,000km a year might become the cultural norm. Year on year, achieving the necessary culture change will be more difficult. People will lose the appetite for soft measures and policies to change demand if we do not act extremely quickly.

Cathy Peattie: What have been the most expensive measures to mitigate greenhouse gas emissions so far?

Phil Matthews: Do you mean of those measures that have been successful?

Cathy Peattie: Yes.

Phil Matthews: Investment in renewables through various mechanisms has, I guess, been the thrust of Government policy to date. As I said, we would like a greater focus on demand reduction through investment in housing and other infrastructure. That will be expensive, but it will have much wider benefits for employment, living conditions and economic savings for individual residents.

Cathy Peattie: Is there an urgency to rolling out such measures? Given the need for more public engagement to ensure that people accept that it is possible for them to do things, is the roll-out of such measures vital?

Phil Matthews: Absolutely. As John Barrett pointed out, behaviour change is an important aspect, but behaviour change works only when the infrastructure is in place that enables people to make the right choices easily. Over the decades since the second world war, investment in more dispersed settlement patterns and so on has made it very difficult for people to walk or cycle to work, the shops or leisure activities. Putting that genie back in the box, as it were, will be a long-term job.

Any new infrastructure to promote energy efficiency will need to be of an appropriate scale if it is to be as cost effective as possible. We will need some real scaling up from what we have just now, but there is a lot of evidence that that would save a lot of money per unit. I will not pretend that big capital investment would not be required up front, but I think that Government should look at other investment models and at other ways of bringing in finance. I know that various studies are under way on how that could be done.

14:15

The Convener: Your answer leaves us with a serious problem. You have talked about existing expenditure on renewables, which is largely at UK level, although policy is often devolved, and you have talked about what needs to happen. Housing and building measures are devolved. The purpose of this session is to look a few years ahead. Whether we agree or disagree about what a potential UK Government might do over the next short period, there is the prospect that serious cuts will have to be made in the Scottish budget. If the most expensive measure that is successful that you can think of is a UK budget line, you are calling for a Scottish budget line, and the challenge that we face is Scottish cuts, the situation is not convenient, is it? Is there a way through that? Can an argument be put forward that will resonate with those who are responsible for considering the Scottish budget and seeing where cuts can be made?

Phil Matthews: That is why I touched on different finance mechanisms. I recognise that money may be hard to come by through the existing mechanisms. It is hard to separate the Scottish and UK levels, but Scottish Government money, the possible reallocation of money and different ways of doing things should be considered. I alluded to transport. Money could be saved in certain budgets. The funding that the utilities could bring to schemes and new pots of money should be considered. We have started to be involved in discussions about the potential for a green new deal-type approach in Scotland. Our sister organisation in Northern Ireland is doing something similar, and that has been successful. This is not my area of knowledge, but green bonds issued by local authorities and other ways of financing investment in green infrastructure can be discussed. There are many suggestions out there that the Government should consider. The Calman report suggested that ecological or green taxes could be devolved. I do not want to get into party politics, but that might be an alternative approach if Scotland had extra powers.

John Barrett: I hope that, when times are tough, we will look for policies that will both have significant social benefits and affect greenhouse gas emissions. I would not necessarily say that if I were to allocate expenditure, I would protect a budget line, but I would allocate expenditure on the demand side for the retrofit of houses, as people would see direct benefits from that. There is considerable evidence that doing that would also boost the economy, that the revenue would be greater than the expenditure over a certain period of time, and that the payback periods would be fairly short. Such an approach has everything; indeed, it makes one question why on earth it has not been done already. That is what I would concentrate on most for social advantages combined with reduced greenhouse gas emissions.

Shirley-Anne Somerville (Lothians) (SNP): What impact will future constraints in the budget have on the ability of the wider public sector in Scotland to address climate change? The health service has been mentioned briefly, but what about local authorities and anything else in the public sector?

Phil Matthews: I was recently involved in pre-consultation discussions with public bodies on the public duty guidance that the Government will put out to consultation this summer. It is clear that there are many concerns among public bodies about the additional requirements that there will be and the availability of funding. I refer to the suggestions that have been made about different ways of financing and doing things. During the pre-consultation, suggestions were made about possible seed money from central Government,

changes to the timeframe within which costs and benefits are analysed, and different ways of doing things. Perhaps there could be more joined-up working among local authorities and other public bodies.

A couple of years ago, I was at a brand-new, energy-efficient school in Aberdeenshire that housed a police station. Given the demands that we are likely to see on public finances in the next few years, perhaps more collaborative working at the local level with a focus on sustainability would prove to be beneficial to services and would help to cut costs across the public sector.

John Barrett: I want to add something about the payback periods, which will support what Phil Matthews said. In the context of sustainable design and construction, if the first thing to drop off the list were to be the passive solar system—or whatever measure had been decided on—the payback period would demonstrate that that would not be the right move. The relaxation of the payback period would be a key measure, which I hope would protect environmental and sustainability initiatives in relation to new infrastructure.

My other concern is that certain initiatives will be easy to cut immediately. During the election campaign, the environment has not really hit the agenda, which is a clear indication of what happens when times are tough. Probably some good local authority initiatives will continue, but it will be difficult to ascertain which of those are successful. It would be useful to support selected local authority initiatives in order to ensure that at least some promising pilots do not end, which will give us an insight into what we will have to do in the future.

Shirley-Anne Somerville: In discussions in local authorities, are people keeping an open mind on new ideas and innovative ways of thinking? Do people realise what has to be done, in particular in relation to the public duty in the 2009 act? Is it too optimistic of me to hope that at least some public bodies are more enlightened and have gone past the stage at which people say, “Budgets are tight and it just can’t be done”?

Phil Matthews: I used to work for a local authority. Like all other types of organisation, local authorities are a mixed bag. Some local authorities, health boards and so on in Scotland and in the rest of the United Kingdom are doing impressive progressive work around carbon and sustainability more widely, but others seem to have an attitude of retrenchment. Our discussions were interesting, because some people were positive whereas others thought that the issue was yet another that they must think about among the many other things that they must balance. I can understand where they are coming from, so there

is still a job to be done in that regard. On the Government’s engagement on the public duty, constructive engagement to encourage innovative thinking in public bodies—not just guidance—would be welcome.

Shirley-Anne Somerville: We have heard about measures that are working in Scotland and about some of the most expensive measures. Are there lessons that we can learn from abroad on how to tackle climate change in an efficient and cost-effective manner? Are we making the right decisions about what to take forward?

John Barrett: Probably one of the most successful examples in Europe comes from Germany, which drove forward the renewable energy market by putting in place a tax and giving a clear indication of its intentions to businesses and individuals. The approach gave the market confidence to move forward with investment, because it knew that the tax was in place for the long term and would not go away. People knew what the price for renewables would be in the future. It was a good initiative and a brave move, which now has public support—as is often the case with policy.

There was concern in Germany that developers of new infrastructure would have to pay the additional costs of making buildings have lower emissions so, as well as the initiative that I described, contracts were set up with occupiers of new buildings—businesses and houses—whereby additional costs were paid back through energy savings and so on. That scheme has also been successful. I could give quite a few other examples, but I will stick with those two.

Phil Matthews: There are lots of good examples of cities that have done progressive work on transport. Copenhagen, for example, has done much on cycling and the reclaiming of public space, as have cities in Germany, such as Freiburg.

I mentioned the report on Wales. Wales has a commitment to zero-carbon building by 2011. As an aside, I mention that our policy adviser from Wales told us last week that when the minister of the time came out with that commitment, the civil servants just about fell off their seats and wondered how it could be met. He said that it was a bold target, like the targets for Germany that John Barrett mentioned. There is no way that Wales will meet the 2011 target, but it has started a dialogue with many construction companies in Wales, which see that they can be ahead of the game because eventually such targets will be introduced in their other markets in the rest of the UK. I do not endorse setting targets that cannot be achieved, but sometimes such boldness of aspiration can drive change, even if the targets are not met. It can show how quickly companies’

business models and the ways in which Government works can change when something is seen as a priority and there is a reality to which people must face up.

Shirley-Anne Somerville: In a recent report, the Sustainable Development Commission Scotland set out five challenges for the Scottish Government, one of which was to

“Use the power of the public sector spend to deliver more sustainable outcomes”.

Can you explain to us in detail how that can still happen, especially in these financially constrained times? Is that challenge under more pressure, or is there an opportunity in what is happening at the moment of which public bodies can take advantage?

Phil Matthews: In my previous answer, I said that the scale of the cuts in finances that people are predicting may drive more collaborative working between public bodies, where that is not happening already. I mentioned police stations and schools. Many local authorities around Glasgow are also talking about collaborative working on services. There is potential for quite radical thinking about how services, construction projects and other types of procurement are delivered.

As John Barrett said, in some instances, spending less may be good in carbon terms. Much more could be done to deliver best value in procurement. We welcome the Government's sustainable procurement action plan, but the anecdotal evidence that we have heard so far suggests that the wider public sector is not taking that on board in the way that the Government hoped. We hope to look into the matter next year, to see whether the public sector has developed a clear response to sustainable procurement and whether that is tracking through into the procurement decisions that it is making.

John Barrett has done all of the work on footprinting. He was involved in producing an interesting footprinting report on the national health service in Scotland. I believe that more than 50 per cent of the procurement footprint in the NHS relates to pharmaceuticals.

John Barrett: That is about right.

Phil Matthews: I should never make such assertions when the report's author is beside me. There are challenges in the NHS. The gross carbon assessment throws up interesting information on what leads to carbon impacts and it identifies areas, such as pharmaceuticals, in which it is more challenging to find an alternative. Let us get the evidence, so that we can start to think more radically about how we can deliver services in a more cost-effective but lower-carbon way.

John Barrett: I have nothing to add.

Shirley-Anne Somerville: So—that was a good summary of your report.

John Barrett: Yes. Well done, Phil.

Marlyn Glen (North East Scotland) (Lab): The committee is aware that both the Sustainable Development Commission Scotland and the Stockholm Environment Institute have an interest in alternatives to growth-based economic measures, such as ecological footprints and indicators of wellbeing. What do you consider to be the benefits of considering such broader objectives? If they were used, how might they influence spending priorities?

John Barrett: We advocate the use of both territorial and consumer-based greenhouse gas accounting over the ecological footprint. That opinion is based on a number of methodological reasons. An indicator of economic growth does not and cannot encompass fully the direction in which we want to take society. Recent evidence demonstrates that some countries have done significantly better than others at getting social value out of £1 of economic growth. That alone shows that an indicator that measures only economic growth is completely flawed. A recent European analysis by researchers at the University of York and the University of Nottingham demonstrates that growth in inequalities leads to significant social problems, and vice versa.

Therefore, from a social and environmental perspective, one indicator does not encompass the direction in which we want to travel. On that ground, we clearly need other and more complex methods to understand where we want to take society. Economic growth must be seen to deliver the goals of society, as opposed to being a goal within itself.

14:30

Phil Matthews: I agree with a lot of that, but I will make a couple of points. First, in the Government's cost versus carbon benefit appraisal of different options, walking comes out as being very low cost and beneficial. Cycling comes out as having a higher cost. However, if you factor in the wider benefits of encouraging cycling, such as health benefits to individuals, then the equation changes. We want tools that appraise the widest possible sustainability of different outcomes and different policy instruments. In that way, we move towards policies that deliver the things we want across the board rather than focusing on one thing, whether it is carbon, the economy or whatever else.

May I mention two bits of work? I have already mentioned prosperity without energy growth, which is a project at United Kingdom level on which we will be working this year. There is also work that we are thinking of doing on growth and transition. We did the "Prosperity without Growth?—The transition to a sustainable economy" report, which was a longer-term vision of the challenges and the potential for changing the economic model. Our new work will look at the shorter term and at ways of doing things that would not, necessarily, be radical changes from where we are now, but would set us on a path towards a more sustainable economy.

Marlyn Glen: What is your view of the methodology that was used in the carbon assessment that the Scottish Government produced last year to go along with the draft budget?

John Barrett: A colleague of mine has already given evidence specifically on the methodologies that were used. We are generally in favour of the approaches that have been used. They try to take account of the full life-cycle impacts of expenditure, which is a good start. They are also specific to Scotland, which is unique in accounting at present. The fact that the Scottish Government supports accounting is very encouraging. It is not done at UK level, which is in breach of European law, although that does not seem to matter. The methodology needs to be improved in order that we can understand the full downstream consequences of expenditure. That is where it has fallen down, although it is perhaps unfair to say that, because it is a good start. However, that is where it needs to move to in the future. It has not necessarily taken into account the fact that building new unsustainable infrastructure will lead to unsustainable behaviour. It merely understands the upstream elements of the expenditure. It is a good start, but improvements need to be made.

Marlyn Glen: So, we are taking a lead. You have partly answered my next question. The carbon assessment signals a recognition of the need to provide more of a balance between emissions reduction policies and efforts to deliver economic growth. What more would you like to see being done in this area?

John Barrett: Do you mean in accounting?

Marlyn Glen: Yes.

John Barrett: I would like to see more on the downstream impacts of policies. We cannot have economic growth traded off against climate change. We need to identify the policies that move towards both. One reason why we would generate money in the economy is to pay to sort out the inadequacies of the market. Therefore, this is just a correction in the market. I do not want a situation

in which we are trying to understand and determine the cost of climate change. We must ensure that climate change is part of an economic decision that will lead to a more prosperous future. Society as a whole has not got its head around what a future temperature increase of 4°C or 6°C really means. It means a future in which economic growth will be a lot more difficult than it has been in the last two years. We would have migration at an unprecedented level and the current discussion on immigration will seem like nothing in comparison. Climate change and the economy must be brought together as opposed to our just working on the cost of climate change. That is the key challenge.

The Convener: I ask Phil Matthews to respond to that. Do we need to move beyond the idea of balancing policies to reduce greenhouse gas emissions against policies to increase economic growth? Surely, we need an economic policy that is designed to achieve the emissions cuts.

Phil Matthews: That is very much the case—I have given various examples of that over the past half hour. It is about integration, factoring in objectives, designing policies to achieve those and having the appraisal tools to enable making the right choices to drive policy towards the right outcomes.

The Convener: Thank you very much. There are no more questions for this panel of witnesses. Is there anything that you wanted to raise that has not been touched on in our questions? John Barrett is looking contemplative.

John Barrett: One of my major concerns about the carbon budgets is that they will be set to ensure that we have an equal distribution of carbon emissions by 2050, which is the direction of the Committee on Climate Change. That will never be agreed by developing countries, which will expect an equal distribution of carbon emissions from 2010 at the latest. I would encourage the aligning of carbon budgets by looking for an equal distribution of carbon emissions from 2010 to 2050 to get a total cumulative budget for Scotland, and I suggest that we attempt to live within that budget over that time period, otherwise it will be impossible to restrict any future temperature rise to 2°C. However, no one has gone that far at this stage. The language is all about restricting the temperature rise to 2°C, but the budgets clearly suggest that we will not achieve that.

The Convener: I thank you both for taking the time to answer our questions.

14:37

Meeting suspended.

14:43

On resuming—

The Convener: With our second panel of witnesses we will continue our consideration of the budget strategy phase for 2011-12. I welcome Dave Watson, who is the Scottish organiser for Unison, Duncan McLaren, who is the chief executive of Friends of the Earth Scotland, and Chas Booth, who is the senior press and parliamentary officer for the Association for the Conservation of Energy. Thank you all, and welcome to the committee.

I begin by mentioning the Scottish Government's climate change adaptation framework, which states:

"The Scottish Government will support and work with the Third sector to offer targeted support to those most impacted by climate change."

Do you feel supported by the Scottish Government in that regard? Can you give any examples of where the Scottish Government has offered that kind of support or perhaps where it has not?

Dave Watson (Unison): I can give one example. From our perspective, the development of green workplaces is important, especially given that two thirds of emissions come from workplaces. That has been an underdeveloped area in tackling climate change.

The Scottish Government's climate change fund tweaked the criteria slightly in the last allocations, to the extent that we have managed to get a couple of workplace-based bids in. One of those has been accepted by South Lanarkshire Council; it focuses on the workplace and makes the link with the home. That is welcome and positive but, sadly, one or two other projects did not get the same level of support.

That feeds in to the initial work that is being done on public duties, which was a particular request of ours during the passage of the Climate Change (Scotland) Act 2009. I am on the Scottish Government's advisory body that is developing the guidance, and we are starting to make some progress, although there are some challenges. Some of the questions that the committee asked earlier reflect some of the challenges that face the public sector, and I am sure that those will be picked up in later questions. That is an area in which a lot of work needs to be done over the next few years.

14:45

The Convener: Does anyone else want to comment on levels of Government support for and work with the third sector in this area?

Duncan McLaren (Friends of the Earth Scotland): We are here today on behalf of the wider Stop Climate Chaos Scotland body as well as our individual organisations. Some of the partner organisations in Stop Climate Chaos Scotland are more affected than Friends of the Earth Scotland by the pledge on adaptation support.

From our limited perspective, we have seen some support through the climate challenge fund going to particular communities to help with mitigation programmes rather than specifically with adaptation programmes. It is early days on adaptation. I am not sure, but the committee might want to seek a submission from RSPB Scotland, which I know has been working on adaptation, although I cannot speak for that organisation to say whether it has had direct financial support to help with that.

The Convener: We are holding this session to discuss future budgets in the expectation that difficult times might be ahead, and that resources might become increasingly scarce. There are estimates of what we can expect, but we will not know until some time down the line. What approach should the Scottish Government take to directing spending, recognising that it has responsibility for that one level alone and cannot necessarily change what the UK Government is going to do or the context within which it is working? What areas should we be looking to protect? What areas might it be beneficial to cut in respect of climate change?

Duncan McLaren: The committee will have to excuse me—you have probably heard this before—but it is important to get it on the record. There are clear opportunities to deliver carbon savings through budgetary savings, or actual cuts in budgets. I will give some illustrations, but I do not mean to say that they are all SCCS-agreed policies. By making savings through cutting capital expenditure on large transport infrastructure, particularly roads infrastructure, we would make emissions savings in future years.

Emissions savings can be made through efficiency measures—doing the same things more efficiently, particularly in energy and transport terms. One of the key tools for that is cross-compliance to get carbon benefits from expenditure that might have another primary purpose.

Another thing that can be done is redeployment of budgets by shrinking the budget for one area and increasing that for another based on the carbon intensity of the budgets. Increased budgets for housing improvements or cycling support could, or should, lead to savings on other budgets as a result of health benefits, for example. If houses are made more energy-efficient, they are

also drier and warmer, which leads to savings in health costs in future years. The evidence from Copenhagen and Amsterdam suggests that we would reduce obesity rates if we were to improve cycling rates, which would flow through into health budget savings.

Although the convener emphasised the limited scope for the Scottish Government on the revenue side of the equation, we should not forget it. It is possible to make carbon savings as a result of choices in how we raise revenue, and there is scope for limited but challenging green taxation in Scotland to do that. Clearly, there is also more potential well within the lifespan of the current budget crunch and the Climate Change (Scotland) Act 2009.

In conclusion, I say that all the tools could, equally, be used such that we would end up with more emissions if we do not plan appropriately. The key take-away lesson is that there is a need for a greenhouse gas emissions criterion within budgetary processes. There have been steps taken in that direction with the assessment of the budget that has been undertaken.

I could probably go into more specific detail, but I will pass to my colleagues for other examples.

Dave Watson: The important point is that we regard tackling climate change as an opportunity and not as a cost. That is difficult, but energy efficiency and fuel poverty are two examples—Chas Booth can probably talk more about them. Ideas such as active travel plans link in with some of the green workplaces ideas that I spoke about earlier, and we have a range of initiatives that the Trades Union Congress green workplace project has highlighted as a result of considerable experience of delivering them across the UK.

Another example is what I would call green procurement. Frankly, we have concerns that many of the procurement efficiencies will be counterproductive for the environment. There is a lot of centralisation, for example. Only yesterday, I heard about concern that there is a Government consultation paper that proposes the central sourcing of books for libraries and schools. That could be delivered only by shunting all the stock from down south to Scotland. Apart from the wider cultural issues that would be involved in that sourcing, there would clearly be a considerable environmental impact.

I can give another example that causes concern. One of our largest quangos, which actually comes under the committee's remit, used to have a number of contracts with local contractors. It brought all the contracts together to centralise them, and the local contractors lost out. There is now a workforce that is being shunted 70 or 80 miles a day to other areas. One point that I

have made to the public bodies group is that we need to consider mileage issues. The difference in price was literally a few pence, but there was a huge increase in carbon emissions in the new way of delivering the contract.

We can look at things such as the food for good policy that we put together, and the work of local food procurement for schools—East Ayrshire is a good example of that. Some areas do that work, but from our perspective it is a question of the public sector leading by example. It should not say, "Oh well, it's all too difficult now—we have a new budgeting environment and we have to focus on the bottom line and forget about the environment." As the Stern report made clear, we can spend money now or, if we delay it, there will be a real cost to us in both financial and environmental terms.

Chas Booth (Association for the Conservation of Energy): I agree with my colleague Dave Watson's comment that tackling climate change is an opportunity and not just a cost. For example, we have done some research that suggests that up to £3.10 of lifetime savings can be delivered for every £1 invested in energy efficiency. Energy efficiency is one of the rare things in which you get your money back: it has a negative net cost.

One example that I would like to highlight is the central energy efficiency fund, which helps the public sector to deliver both carbon and financial savings. It was set up by the then Scottish Executive in 2004 with a tiny fund of £20 million, which public bodies can bid for to invest in energy efficiency. A Scottish Executive assessment a few years ago estimated that the average payback period is three and a quarter years—which is a very short payback period—that the cost per tonne of carbon saved is £66, which is a competitive figure, and that the savings up to this year would be £104 million in cost savings and more than 350,000 tonnes of carbon. That is highly cost effective, but the assessment found that that fund is too small and that many local authority energy efficiency managers are not aware of it, so it is not used to its full potential.

Your initial question was about where the Scottish Government should direct its spending. We suggest that expanding funds such as those should be a high priority.

The Convener: Thank you. You have all given such thorough answers that some of the questions that we plan to ask you might sound like a bit of a retread.

Cathy Peattie: Yes, you have answered some of my questions already. How might a reduction in budget provision affect the ability of public bodies

to respond to the duties that the Climate Change (Scotland) Act 2009 places on them?

Dave Watson: As I said, we are looking at that in the context of the guidance. Your previous witnesses referred to the consultation sessions that have been taking place as part of that. There is a difficulty, and a number of public bodies—perhaps not surprisingly the finance directors in particular—are saying, “Look, there is only one issue.”

In our evidence to the Finance Committee’s inquiry, we provided information on the actual cuts that will take place in the coming year, way ahead of anything in the Scottish Government budget. We are seeing a scale of cuts that is not justified by that budget for many reasons, the primary one being that finance directors are looking ahead, assuming that things will get a lot worse in the next two or three years and putting in place a programme of cuts now. If we said to finance directors, “By the way, we’ve got this public duty to take account of emissions,” some of them might say, “Oh, we can’t be bothered with that. We’ve got far more important things to do and saving money is the only thing that matters.”

In fairness, others would acknowledge that some of the efficiency savings that all public bodies are seeking to make are opportunities to cut emissions as well; nevertheless, some of the measures that they could take are spend-to-save initiatives, which is a problem. Realistically, we must accept the fact that some initiatives, such as videoconferencing, have up-front costs that require some investment. That spending will bring downstream savings, but if a finance director has to save £X million this year and £X million the following year, they will take some convincing that that up-front expenditure is justified. Some finance directors will say that they do not have the time or the resources to bother with measures to cut emissions; others will see the opportunities to do so. We must do a lot of work to ensure that we do not allow the public duty to slip in the current economic climate.

Duncan McLaren: As Chas Booth has outlined, public bodies can do things that are financially beneficial to them. Measures such as making efficiency savings in their energy use are, at least in the more enlightened public authorities, still likely to go ahead and will be seen. However, the public bodies duty covers a much broader set of duties. It requires local authorities to address the emissions of their communities in all their activities, including planning and so forth, and I fear that that is where we will see the greatest inclination for short-term thinking. They may decide to cut expenditure on measures that are designed to deliver emissions reductions that do not bring them a financial saving. We must,

therefore, be better at identifying where the financial, environmental, social and health benefits of public authorities’ actions arise for other public or private bodies. For example, smarter choices transport schemes are among the most cost-effective carbon emissions reduction tools when account is taken of the benefits from reduced congestion that accrue to individuals and private businesses, although those benefits do not accrue to the public bodies that deliver the schemes. We must somehow account for those benefits.

There may be a case for a centralised fund that somehow recycles benefits that are accumulated in public bodies from emissions reductions in other public bodies, so that there is a central place to bid for money to undertake emissions reduction activity that will have wider benefit.

15:00

Chas Booth: Cathy Peattie asked how easy it will be for public bodies to achieve their responsibilities if budgets are tightened. If the Scottish Government squeezes the wrong sorts of budgets and cuts tiny sums of money such as the central energy efficiency fund, it will send the wrong signals, which would be regrettable.

Cathy Peattie: My next question is similar. A Unison press release stated that UK local authorities lead the way in

“domestic energy efficiency schemes, and greener schools, hospitals and community district heating schemes”

and that those make sense,

“create green jobs, reduce emissions and fuel bills for both employers and consumers. But they all come with a price tag”.

What suggestions do you have to encourage action on the ground? We have already heard about areas where action might be possible, but people are not thinking laterally and do not see the joined-up effect of the work in which they are engaged.

Dave Watson: The honest answer is that we need a mixture of carrot and stick. There must be a regulatory stick. I am concerned that budget cuts in some regulatory bodies in this policy area might impact on their ability not only to enforce regulation when they need to but to spread good practice, advise and guide. There are some fairly crude across-the-board budget cuts in some of those budget headings and in bodies such as the Scottish Environment Protection Agency. Those will present some real challenges and the risk is that such bodies will simply pull back from the type of work that I mentioned.

The other type of regulation, whereby we set out minimum standards and are fairly aggressive

about them, is the way to go. It is about setting the right tone.

We are the largest union in the energy industry. In an earlier evidence-taking session, you talked about signs. Any of the big energy companies will say that they are happy as long as there is a level playing field and they have an indication of the direction of travel. They do not want policy to switch backwards and forwards; they want to know the rules of the game. If they are making millions of pounds-worth of investment, they need to be sure that the tax and regulatory environment will be stable for some years to come. If there is any doubt about that at all, in the international energy market in which those companies operate—bear in mind that our biggest energy company is not even owned in Scotland any more—the money will simply go somewhere else. If someone sitting in Spain has to decide whether to invest in Scotland or America and there is a stable regulatory framework in America, that is where the money will go. We need to understand that reaction. We may not like it, but we need to understand that that is the way that such companies operate.

At that high level, there is a need for certainty and strict regulation. At a softer level, the incentives that Duncan McLaren and Chas Booth talked about are important. We favour the fund approach.

More can be done to share good practice. One of the beauties of our co-operative public service model is that there is no competition so we should be able to share good practice positively. There are good examples of that, but we could do more.

I am more sceptical, to be frank, about some of the examples of practical collaboration. I have no problem with police stations and schools sharing premises. Whether that is on environmental grounds or other grounds is debatable, but it is fine and nobody has a problem with it. However, we are a bit more sceptical when it comes to shared services. There are consultants who would advise the Scottish Government to stick everything in a big shed in Livingston and move everybody into it. The risk with that type of approach is that it would have a huge carbon footprint as a consequence of staff who work in a number of public bodies criss-crossing one another.

We see that happening with some of the so-called efficiencies, which can be misleading. Sharing services is one approach in which, on paper, it looks as if one budget saves money. For example, if bodies share human resources services, the HR director says that they have saved money by having a shared service, but the cost is displaced into other areas, because all the operational departments suddenly find that they have to deal with HR and quite highly paid staff

have to do things that were previously done by clerical staff.

Another example is a quango that falls under the committee's remit and which has introduced a new workforce planning mechanism with a super computer system. Everybody got new PCs and they were told that the system would tell them where to go to do a particular job. However, at a meeting with our stewards committee the other week, they told me that staff wave to each other as they pass on the road, with one person going one way and one person going the other. The system sends them in those directions, whereas in the old days they simply said, "Actually, it's quicker for Joe to get there."

Some systems look good on paper and there is hype about some efficiency schemes, but they might not deliver the efficiency that we think they will. They are more likely to displace costs and result in a whacking great increase in our carbon footprint.

Duncan McLaren: Alongside regulation, funds and a sensible approach to efficiencies, public bodies need to be given a clear set of accounting guidance on how to account for the greenhouse gas implications of their activities, so that we can assess whether the efficiency savings, for example, are delivering. A clear mechanism for carbon or greenhouse gas budgeting by public bodies should be part of the framework so that we can see not only how much is generated in total by their activities and associated activities, but what share of Scotland's budget it would be fair for them to have.

Chas Booth: The question was about how we can encourage action on the ground. One key way in which to do that is by the Scottish Government leading by example. In energy efficiency, it could do that by setting and delivering on ambitious targets to reduce carbon from its estate. The Scottish Government currently has a target of a 30 per cent cut in emissions from its estate by 2020, which as members will no doubt spot is not in line with the target that was set last year in the Climate Change (Scotland) Act 2009. One way would be to increase that target at least in line with the target in the 2009 act, if not beyond that.

The most recent Scottish Government report on its energy use found that, for the most recent reporting year, energy use had gone up and therefore greenhouse gas emissions from its estate had gone up. That is a regrettable state of affairs, not just because the Government estate should be cutting emissions—because that is the direction that we need to go in—but because it is enormously disempowering if the general public see a disconnect between what the Scottish Government does and what it says. People are not stupid. If the emissions from the Scottish

Government's estate go up and yet there are public awareness campaigns encouraging everyone to turn off their lights and so on, people will see the disconnect.

Futerra Sustainability Communications, which has done work for the United Nations Environment Programme and many Government organisations and agencies, has found that if a disconnect occurs between what a Government body does and what it says, people not only turn off from that campaign but tend to distrust future Government awareness-raising campaigns, too. The issue therefore has an enormous impact on public engagement campaigns. It is vital that the Scottish Government leads by example.

Cathy Peattie: We discussed with the previous panel the power of the public sector to deliver more sustainable outcomes. How can the power of public spend be used to deliver more sustainable outcomes and how will the power be constrained under future budgets? You have in a sense already answered some of that.

Dave Watson: Yes—I gave examples of that earlier. One reason why we pressed so strongly on the duties on public bodies in the Climate Change (Scotland) Act 2009 was to do with leading by example. If we do not construct schools and hospitals and do all the other things that we do efficiently, there is no drive for anybody else to do so. The public pound can drive best practice in that way and in other practical ways.

For example, the public sector can encourage energy efficiency through travel schemes and lead the way in green workplaces. Large numbers of people visit public buildings. I was at a conference the other week and the managing director of a company told me that he had implemented a project because he had walked into some council offices and seen practical energy efficiency measures there. He said to his director of finance, "Why can't we do this?" Essentially, he was saying, "If the local council can do it, we ought to be able to do it as well."

We should not just think of work to encourage energy efficiency in terms of changing public attitudes when members of the public go to public buildings, or even in terms of workers taking best practice home with them, important though those things are. Such work also sends a message to the wider commercial community that the public sector can do it, and it is therefore a driver for the private sector to do the same.

Duncan McLaren: We come back to the question of what best value really is in the current circumstances. It would be all too easy for procurement to be driven purely by financial considerations and for people to say, "We must get the cheapest possible outcomes," but that

would not necessarily mean that we had the cheapest outcomes for other public services or the best value for the public. The guidance—and its implementation—from the Scottish Government, the Audit Commission and so forth must be fairly tough to ensure that, where procurement decisions do not genuinely follow best value, even if that is financially more expensive than the cheapest available offer, that is highlighted and revealed.

At a system level, the power of the public spend will go down as a result of the size of the public spend going down, if that is indeed what happens. However, the unrealised potential in the public spend at the moment is massive. Public spending is not generally directed in a way that delivers climate change or environmental outcomes. There is an awful lot of scope across many budget headings, including transport, energy, food, waste management and use of resources such as paper—I could go on for a long time. However, if the power of the public spend goes down as a result of reductions in the total spend, Government might need to look in a new way at the opportunities that regulatory approaches afford. Some of those do not involve spending a lot of money, such as changes to the minimum energy efficiency standards and the lowering of speed limits.

Chas Booth: I agree with my colleagues. Given the context of tight budgets and the ambitious climate change targets in the Climate Change (Scotland) Act 2009, we need an invest-to-save approach. The Government must accept that, in energy efficiency and in some other areas, some up-front investment will be required if the downstream cash and carbon savings are to be delivered. It is vital that we take that approach to budgets in future.

Cathy Peattie: We have had some discussion about good practice. Do you have any examples of good practice in the public or private sectors in this country or further afield in which organisations have successfully addressed climate change in a challenging economic climate?

Dave Watson: I can only point to the TUC green workplace project, which includes a range of examples in which real change has been made in the public and private sectors. There are some inspirational examples—even in heavy industry—of substantial savings being made as a result of the changes. I am not as familiar with international examples, although I know that some of our sister unions in Scandinavian countries have done some innovative stuff. I am not overly familiar with that work, but I have certainly heard them speak about it. There are some impressive examples, and we have built them into some of our projects.

Duncan McLaren: I am afraid that I do not have any examples from the economic circumstances that we are experiencing, and the examples that we have tend to be patchy. We find that particular health boards or particular parts of the education system have generated examples that should be more widely shared.

15:15

Chas Booth: I am delighted that the energy efficiency standards for domestic new build will be improved by 30 per cent by 2010, but the fact is that current standards in Scotland do not reach the standard that Sweden set in 1978. In other words, we are still more than 30 years behind the best in Europe. The changes that will come in this year are good news, and the Minister for Transport, Infrastructure and Climate Change, who is giving evidence after us, should be congratulated on them, but a couple of things are missing.

First, Phil Matthews mentioned Wales, where there is a target to deliver zero-carbon new build by 2011. Our target in that respect is 2016, but there is no road map for getting there. The industry must have confidence that the Scottish Government is serious about getting there, so we need that road map to show us how we get from here to 2016 with regard to domestic and non-domestic new build. The Sullivan report is good news, but the Scottish Government ignored its recommendation for a 50 per cent improvement in non-domestic new build this year and has instead delivered a 30 per cent improvement. As a result, the industry no longer has confidence in the Sullivan report as a road map and we need something from the Government that sets out a strategy.

Secondly, some domestic buildings in Scotland have been successfully retrofitted to cut greenhouse gas emissions and the occupants' fuel bills and to tackle fuel poverty. I recommend to the committee the WWF Scotland report "Achieving our potential: an analysis of area-based approaches to improving energy efficiency in Scotland's homes", which examined schemes in Fintry, Girvan and Hadyard Hill in south Ayrshire that have managed to achieve very significant carbon savings for quite a small investment. Indeed, the schemes drew on many different pots of money and achieved their aims through universalism.

Interestingly, the paper that was prepared for the Finance Committee was all about whether universalism is dead. The three schemes in question were all universal—in other words, work on lofts, cavities and so on was free to the people who lived there—and were delivered at a cost of between £200 and £350 per tonne of CO₂. In comparison, up to the end of February—the latest

figures are not yet available—the Scottish Government's home insulation scheme was costing £791 per tonne of CO₂, or more than double the most expensive universal scheme. The WWF report, which I recommend as an example of good practice, shows that universal schemes can be cheaper than means-tested schemes and can deliver significant carbon and fuel bill savings and help to tackle fuel poverty.

The Convener: If the changes in the standards for domestic new build that are coming through later this year do not quite bring us up to the best standards, do they at least bring us up to Swedish standards in the 1980s or 1990s?

Chas Booth: About that. I would say the mid to late 1990s.

The Convener: That is not as bad as I was expecting.

Chas Booth: That is a guess. If you want a precise date, I will need to get back to you.

Alison McInnes (North East Scotland) (LD): Witnesses both in this inquiry and in our parallel inquiry on the links between spatial planning and transport have highlighted transport as an area of concern because of a lack of alignment between national planning guidance and planning decisions on the ground. Do you share those concerns? Do you see any lack of alignment between national policy and local decisions in other sectors?

Duncan McLaren: We definitely share those concerns. There is a serious lack of alignment at the national level, where, despite good investment and good approaches to public transport—including, for example, encouragement for high-speed rail—significant investment is still flowing towards road infrastructure, with current and future projects such as the M74, the Aberdeen western peripheral route and the Forth crossing taking a very significant slice of capital budgets.

With the enabling of increased road and car-borne mobility, the same issues arise in the planning system around the continuing separation of residential, industrial and employment land uses. As a result, we are locking ourselves into relatively high mobility requirements and we are taking a gamble that we will be able to deal with that through a surplus of renewable electricity and the use of electric vehicles, rather than taking the conservative or cautious approach of reducing the distances travelled and relying more on walking, cycling and public transport modes, which we already know can be delivered in a low-carbon way.

Transport includes air travel. The fact that six routes are still being funded under the route development scheme seems to run at cross-purposes to the idea of making savings from

reducing people's dependence on air travel. In other budget areas, it is of particular concern that we have yet to get to grips with the disjuncture between spending objectives in agriculture support and the delivery of low-carbon agriculture and land use. Indeed, those two areas of agriculture and transport were the ones that the high-level assessment for the budget highlighted most. I commend the Government for that approach—that assessment is a very useful tool and a great first step.

This is perhaps the point at which we should note what was a methodological glitch, in my view. In agriculture, the assessment seemed to take account of downstream effects and to take on responsibility for everything that was being done with the agriculture budget, whereas the transport expenditure lines did not take account of any emissions that were induced as a result of traffic using the infrastructure that had been invested in. Even with that caveat, transport still stood out in the high-level assessment.

Dave Watson: I do not think that the carbon impact of transport policy is properly reflected. I am not sure whether there is a particular disconnect between the national and local levels—I do not think that there is a connection at any stage.

We might not always be in agreement among ourselves on that subject. Unison would argue that there is still a need for essential road building. However, there needs to be a shift towards public transport. There are still some essential projects, such as the new Forth road bridge, that are unavoidable and are required simply for the economy of the country. As well as that required shift towards public transport, we also need to make a shift—I say this as Charlie Gordon is here—in the regulation of buses. We strongly support that. We also support incentives for green buses. That would have benefits for the economy, and also some local impact and gains—not far from Cathy Peattie's constituency in particular. Duncan McLaren and I might not agree on roads, but we do on air travel, and I think that it is tricky to see how the route development fund will contribute towards our carbon strategies.

Chas Booth: We were invited here to give evidence on behalf of the Stop Climate Chaos Coalition. The coalition's agreed line is that it is sensible for Government to invest in the lower-carbon forms of transport and to disinvest from the higher-carbon forms. Individual members have positions on specific projects but, as a coalition, we would not identify specific projects that should or should not go ahead—beyond the broader point about taking carbon into account in the decision-making process.

The Convener: Demand reduction has been alluded to by a couple of people in this and the previous panels. With domestic energy and the management of waste, we have reached the point where reducing demand is seen as one of the most obvious things to do, so why has it been so difficult for us to do the same with transport? Is there a way for the Scottish Government to use the current economic climate as a spur to get back to that agenda?

Duncan McLaren: I would hope that the Government would use that opportunity. It is possibly unfair to say that the issues have not been considered, because the ideas of supporting transfer to walking and cycling are in the proposals. Although they are not central to Scottish Government spend, neither is waste reduction central to its spend on waste management—nor, to be frank, is energy demand reduction central to its spend on energy. You are right that the emphasis on demand reduction is less obvious in transport. That may reflect the political sensitivity with which such measures are seen, following, for example, the vote on congestion charging in Edinburgh, in the lead-up to which the consensus of several parties was that Edinburgh needed better public transport before congestion charging could be introduced. I would differ on that, and I suggest that the current financial situation should lead us to reconsider that sort of thinking—before Chas Booth tells us that that is not something that the Stop Climate Chaos Coalition as a whole has considered, I should point out that I am giving the view of Friends of the Earth.

We need to reconsider congestion charging, and not only as a tool to raise revenue that can be invested in the public transport infrastructure that is needed in the future. We probably also need to reconsider regulatory tools in this area. For example—although it is not a measure of which I am a particular fan—lowering speed limits would be a way of encouraging many people to consider alternative modes of travel or alternatives to travelling altogether, such as videoconferencing.

Alison McInnes: The development of renewable energy is a key policy aim of the Government. Do you see public investment in renewable energy as a priority for public funds in the current economic climate and to what extent do you think that the private sector will make any necessary investments in the renewables industry?

Dave Watson: That expenditure has to be predominantly in the private sector, because of the taxation and other incentives that are already available to it. There is a role for Government to drive innovation, and the best example of that is clean-coal technology. An initial decision in favour

of clean coal at Longannet has been taken by the UK Government, which we welcome. Obviously, a bigger prize is still to come, if the final decision is in favour of Longannet. A lot of work has been done in that regard, and that is an example of how Government can drive innovation. Not insignificant sums of money are involved in that, of course. When the Minister for Enterprise, Energy and Tourism met the Scottish Trades Union Congress before Christmas, I described that investment as modest, but he did not, in the context of his budget. In any case, it is useful money.

Obviously, we would argue that we should not have an energy market but, while we do, the incentives have to be put into that market to make it work in the way that we want it to. However, those incentives have not been put in place. There is some indication that the Office of Gas and Electricity Markets and the UK Government have changed their mind about the wonders of the market and have come to the realisation that it is not going to deliver everything that they thought that it would. We are pleased about that, but issues such as transmission loss and transmission charges are discriminatory against renewables and other forms of low-carbon energy generation. There is an understanding that the right incentives can be built in.

As I said earlier, most of the power companies will respond to that as long as they can see a clear plan not just for next year but for the year after, in the context of a five or 10-year capital spending programme that can deliver it.

None of that means that our future is solely reliant on renewable energy. Frankly, there has been some rather woolly thinking in relation to a balanced energy policy. That is not an issue on which SCCS agrees. As I said, you can tell immediately that I am only a trainee eco-warrior because I have not got a beard. We think that we need a balanced energy policy that reflects the sort of base-load energy that our members who generate power and manage the electricity generation system believe is required. A growing part of that is renewables. If we get the right incentives into the market, renewables can play a larger role.

15:30

Duncan McLaren: I will not contradict Dave Watson, who is wearing sandals under the table, but there is a need for investment as part of a package of interventions. There is a need to intervene in the transmission charging regime, so that it does not disadvantage people, and to invest directly in some leading-edge technologies. We welcomed the increased finance for marine energy in the previous budget. There is also a need somehow to support micro-scale renewables.

Feed-in tariffs will help in that area, but perhaps not enough.

There will be a particular need for investment in renewable heat, where market arrangements are not yet driving forward significant amounts of investment. A report that was produced for us and several other SCCS members, although not Unison, supports the need for investment to ensure that we deliver the technologies such as energy storage that would allow us to underpin a 100 per cent renewable future in the 2030 to 2050 timescale.

You asked whether the private sector will come forward. As Dave Watson said, there is evidence that the energy companies are coming forward, but I am concerned by the financial sector's current provision of finance to renewables industries. Since it was largely taken into the public sector, the Royal Bank of Scotland has dropped its investment in renewables projects dramatically. Just last week, there was an alternative public annual general meeting for RBS, at which Richard Gault from Orkney described how his application to RBS for a renewables project had been turned down. The bank and its owners—the UK Government, through UK Financial Investments—are not directing funding to all renewables investment opportunities. We need to look carefully at that framework to ensure that the private sector more than matches the money that the public sector puts in.

Chas Booth: We argue that micro-renewables should be a priority for Government spending. The Government should use microgeneration on its estate, where suitable. Siting is vital—there is no point in putting up a mini-wind turbine in an area that is not windy. The Government should also support domestic microgeneration. It does so successfully through energy saving Scotland, which used to be called the Scottish community and householder renewables initiative. We argue that that support should continue.

Some voices say that we should not invest in microgeneration because it is eco-bling and is more costly than simple insulation and airtightness. That is true for new build. However, a couple of years ago a Renewables Advisory Board report for the Department for Environment, Food and Rural Affairs identified that, although passive solar design, high energy efficiency, good airtightness and so on are the most cost-effective ways of saving carbon in new build, the 2020 targets cannot be achieved through insulation and airtightness alone, especially given the need to retrofit existing stock. It is essential that the microgeneration industry gets a boost now, to enable it to deliver in the latter part of the decade. Renewable energy should be a priority for Government spending, even though at the

moment it may not always be the most cost-effective solution.

Alison McInnes: The Scottish Government's national outcome 14 is:

"We reduce the local and global environmental impact of our consumption and production."

The witnesses touched on the issue. What are the key challenges to the successful delivery of outcome 14 during a tight public spending round?

Duncan McLaren: That is a very big question. An understanding of the implications of our consumption patterns is incredibly important. That is embedded in the 2009 act, and the reporting that the act requires on the consumption side of climate change will reveal that there is a clear difference between the emissions that we produce and the emissions that the goods and services that we consume produce. I hope that that will provide a foundation on which we can build more significant intervention to reduce the implications of consumption.

Your question could elicit many answers. You discussed alternative indicators with the previous panel; alternative indicators would help to build in a wider understanding of consumption, as opposed to the view that consumption is an economic good that is to be measured in pounds' worth of value. Perhaps I should stop there, before I ramble on all afternoon.

The Convener: According to its website, the Association for the Conservation of Energy exists to promote

"awareness of energy conservation and encourage increased investment in all energy saving measures".

How do we prioritise measures? Chas Booth explored the issue to some extent in his previous answer, when he implied that the priority will vary in different circumstances and in relation to different buildings. Given the complexity of the issue, how do you get across to organisations, including the Scottish Government, the balance between priorities for the various energy-saving measures that are out there?

Chas Booth: As I said, it is not always about what is most cost effective now. The committee is considering a budget strategy. If the Scottish Government is to look strategically at how it can achieve its 2020 and 2050 carbon reduction targets, it will not always choose the measure that is most cost effective now; it must also give a boost to technologies that will help us to deliver in future.

It is important that we ensure that the technologies that we support are delivering. However, we should allow technologies to fail. We should not be afraid of failure but should learn from failures. We will need to support some

technologies now that might not necessarily deliver significantly later in the decade. We can do that as long as we learn from the failures and find out what went wrong—perhaps the siting was wrong or we did not get the insulation right when we installed a heat pump, for example. At this stage, budgets are tight, but we need to be prepared to put money out there for technologies that are at an early stage of development.

Unless we are technology blind and support as many different technologies as possible, we will not have the weapons in our armoury that will enable us to cut emissions from buildings by the 42 per cent that is required by 2020. Indeed, the UK Committee on Climate Change suggested in its report that the non-traded sector might need to deliver a 47 per cent reduction by 2020, which is even more ambitious.

The Convener: It is inconvenient that we are trying to achieve unprecedented, transformational change on emissions at a time when we face not just constraints but the potential for serious cuts in the Scottish budget. It might well be right to say that we must do not just the things that immediately provide value but things that strategically will be best in the long run, but we must have the money to achieve our year 1 objectives in year 1 and our year 2 objectives in year 2. The money has to be there.

Chas Booth: Yes, absolutely. There is a role for Government in incentivising private sector investment in, for example, energy efficiency. We welcome the domestic energy efficiency loans scheme that the Government launched last year, but it is not extensive enough and the Government is not doing enough to promote it.

The assessment in the energy efficiency action plan is that achieving our 2020 targets in domestic buildings will cost £16 billion. I do not think that it is reasonable to expect the Scottish Government to foot the whole bill, but it is reasonable to expect it to incentivise wider public investment in achieving those targets through the provision of zero-rated loans and measures for those who are most in need. We were extremely disappointed when the fuel poverty budget for 2010-11 was cut by 10 per cent. That is a step in absolutely the wrong direction and it is taking money away from those who can least afford it. We think that it is a mistake.

The Scottish Government must provide for those who are most in need and those who are least able to fend for themselves, and it must provide incentives for both private sector landlords and individual home owners to stump up the cash themselves. As Duncan McLaren mentioned, regulation also has a role to play. Under the 2009 act, Scottish ministers have powers to require minimum energy efficiency standards, and we

think that they should introduce those standards from the middle of the decade at the latest. Alongside those, there should be much better incentives, financial products and advice to ensure that microgeneration equipment is installed in the right place, and so on. A package of measures is needed. In setting its priorities, the Government must look beyond the current budget period and see that it must invest now in order to save carbon and money over the medium to long term.

The Convener: A similar question that follows on from that is about the universalist approach that is referred to in the WWF Scotland report. Chas Booth and Duncan McLaren were both signatories to a letter that appeared in *The Herald* recently that argued for a street-by-street, house-by-house universal approach to Government programmes. The committee has, in the past, discussed what the costs might be of such an approach. Can you give us any more recent figures for the cost of that kind of approach? I accept what Chas Booth says about its paying the investment back in the long term, but it needs to be paid for in the first instance. Do you have any current estimates for the cost of such an approach?

Chas Booth: The report by WWF Scotland looks at three Scottish area-based energy efficiency schemes, all of which were universal, and states that the cost per tonne of CO₂ saved varied from £196 in Fintry to £376 in Hadyard Hill. As I mentioned, that is less than half the cost of the current home insulation scheme. Universalism is an essential element of the running of a successful area-based energy efficiency scheme, but it is not the only determinant. All three schemes were very much bottom-up schemes that used local community organisations to contact people and so on. The assumption that universal schemes must be more expensive to the taxpayer is absolutely not true.

The Convener: You would measure how effectively the Government was spending its money by the cost of such schemes per tonne of CO₂ saved rather than by the global cost to the country of implementing the schemes.

Chas Booth: We must recognise both costs. Seen from a narrow perspective, the schemes are carbon-saving schemes, but you are right to suggest that we need to look beyond that and see their benefits in terms of alleviating fuel poverty. Duncan McLaren mentioned that energy efficiency investment also brings health benefits—people who live in warmer, healthier homes are less likely to suffer from a range of health problems. Therefore, although it is difficult to quantify, investing more in energy efficiency reduces costs to the health service. You are right to say that we need to consider such schemes not just in narrow carbon-saving terms.

Duncan McLaren: I echo that point. When we look at the marginal abatement cost curves, in addition to calculating the relative cost of carbon we must do our best to quantify the financial value of the non-carbon effects—the health benefits and, as in this case, the employment benefits—of universal schemes as opposed to means-tested schemes.

The Convener: Just after the recent UK budget, Friends of the Earth Scotland stated in a press release:

“The budget makes no progress towards green fiscal reform.”

What specific changes would Duncan McLaren call for as part of green fiscal reform? What would be the benefits and burdens of such measures?

15:45

Duncan McLaren: I will try to give members a condensed summary. I am a member of the green fiscal commission, but the views that I will give are those of Friends of the Earth Scotland rather than those of the commission, although they are informed by its work. That work suggests that, by 2020 or so, we should aim to have doubled the share of revenue that comes from green taxes, from around 7 per cent to around 15 per cent, and that doing so, particularly through a package of taxes on energy and transport fuel, increased taxes on things such as waste to landfill, and potential water charging, could deliver the UK's 34 per cent carbon emissions reduction target. Those measures illustrate the green fiscal commission's model, which says what scale of change is needed. They would all be offset by reductions in other taxes, particularly in national insurance contributions.

At the risk of sounding party political, my particular concern about the budget was that it proposed to go ahead with an increase in the tax on jobs while it did not offer any noticeable increases in green taxes, apart from some scheduled increases in the landfill levy, for example. The green fiscal commission's scenario suggested that there would be in the order of 450,000 additional jobs in the UK economy with such a level of green tax shift—it would be a shift, not an increase—over the timescale in question. It therefore foresaw a double dividend.

That takes us back to my initial remarks. We should be considering how to green the revenue side of the system on a UK scale. It is with regret that I do not hear any of the UK parties saying, “We are in a bind. We may have to raise taxes, and green taxes should be a candidate, as long as we can put in place the right measures to ensure that they don't have undesirable impacts on distribution and protecting the poorest groups.”

The Convener: What do you make of the argument that, if the Government comes to rely on a larger share of its revenue coming from such taxes, it will depend on people carrying on with their polluting behaviours? Those behaviours would be taxed in order to pay for public services.

Duncan McLaren: That is an interesting theoretical argument. Even if it were true, it is clear that we are a long way short of getting such shares of revenue. The essential view is that we will continue to use energy and transport, even in a sustainable economy. There would be future shifts in the basis of taxation. I would still not argue for moving away from a primarily redistributive tax system that is based on income as the foundation for fair taxes.

The Convener: Finally, will you comment on the evidence that we heard in our earlier session on the relationship between emissions growth and economic growth and, building on the arguments around fiscal reform, on whether there needs to be a changed perspective on economic priorities? Earlier, the option of a wider or different range of economic measures as determinants of the success or health of an economy was discussed. Do you want to comment on that and the relationship, such as it still exists, between emissions growth and gross domestic product growth?

Duncan McLaren: Friends of the Earth Scotland has long advocated alternative indicators of wellbeing or economic health. We still back those strongly. It is useful to note that looking at such indicators is not completely different from looking at economic growth. We need to recognise that if we can measure directly the outcomes that we want to see—an increase in human wellbeing, a reduction in poverty and so on—we will be more efficient in delivering them than we would if we were to use the rough proxy of the size of the economy. We need to do that instead of simply assuming that the bigger the economy, the better we can deliver outcomes.

Although this is potentially more controversial with many in the environmental community, I believe firmly that if we make the transition from where we are now to a sustainable economy, the levels of investment from the public and private sectors that will be needed to improve building stock, public transport and effective waste management and recycling of resources will lead to levels of economic growth that are broadly comparable if not greater than those that would be delivered by a continuation of the pursuit of a conventional model.

Dave Watson: I agree with the idea of a broader range of indicators. We sponsored the Compass report “Building the Good Society”, in which many of those arguments were made. The

report pointed to a range of indicators that would better describe the wealth of the nation than GDP alone would do. A lot of work has already been done in this field. Obviously, a high degree of political leadership is needed to make the changes that will be required.

Chas Booth: Last year, we undertook research into the economic effect of achieving the Scottish Government’s 42 per cent emissions reduction target for domestic buildings. We found that there would be a contribution to the Scottish economy of more than £4 billion and that more than 10,000 jobs would be safeguarded or created. Significant economic development can come through the right sort of investment.

The Convener: Thank you. As the committee has no further questions for the panel, do panel members have anything to put on the record that did not come up in questioning?

Dave Watson: Given that part of the committee’s remit is Scottish Water, you will not be surprised to hear me raise the subject. I am sure that the committee will be urged by siren voices to save a few pounds by losing a modest borrowing line in the budget by privatising Scottish Water. We urge you not to go down that road. The business model that is being urged on you is to sell off Scottish Water at a cut-down price—the value seems to have gone down from £15 billion to £1 billion—give the money to the Treasury and get a new owner to take on all the debt and so forth. The water charge payer will then have to pick up and repay all the debt and pay for dividends, fees and fat-cat salaries. If ever there was a stealth tax, that is it. We urge you not to do that. I am reminded of English football clubs with debt-laden owners such as Manchester United and Liverpool, whose fans are asked to repay the money. In this case, it is the water charge payer who will pay.

The important point for us is that, in environmental terms, Scotland’s water is the country’s greatest asset. Many people have said that the wars of the last century were fought over oil and that the wars of this century are likely to be fought over water. We are in the great position of having water as a great resource. Communities across not only the developing world but Europe are chucking out privatised water companies. Even Paris, the city that is home to some of the biggest multinational water companies, has just municipalised its water supply. It would be fairly bizarre for Scotland to turn its back on a public water service and go for privatisation. We urge the committee not to support that option.

The Convener: I am sure that committee members are not exactly astonished to hear that position from Unison. I am grateful to you for putting it on the record.

Duncan McLaren: I have one brief comment, albeit that I will make it in a less impassioned manner. I mentioned cross-compliance in agriculture as a way of delivering carbon benefits. The committee would be well advised to look at the opportunities for imposing carbon cross-compliance on things such as enterprise budgets and business support as a way of maximising the carbon savings that can be delivered from the public budget.

The Convener: That is a useful suggestion, which might have come up in questioning but did not. It might lead to fewer VisitScotland-funded adverts that encourage people to fly to Glasgow or Edinburgh. Thank you all for your time and for answering our questions.

15:55

Meeting suspended.

15:58

On resuming—

The Convener: The meeting will continue with our third panel of witnesses on the strategy phase of the 2011-12 budget. I welcome the Minister for Transport, Infrastructure and Climate Change, Stewart Stevenson, who is joined by his colleagues David Middleton, who is Transport Scotland's chief executive; Gavin Barrie, who is the head of unit for climate change policy in the Scottish Government; and—in a slight change to the advertised programme—Janet Egdell, who is the Government's head of transport strategy. Thank you for joining us.

Does the minister wish to give a brief introduction before questions?

The Minister for Transport, Infrastructure and Climate Change (Stewart Stevenson): I will be brief. I assure members that the *Sunday Herald* apologised to the Government for, and published a correction to, the entirely false story several weeks ago that suggested that the Government was contemplating privatising Scottish Water. The Government has never advocated such a policy position. We are not advocating the policy. In the light of the remarks that I have just heard, I thought that it would be useful to make that clear.

I am now happy to take questions.

The Convener: It is useful to have that on the record. I expect the topic to come up in questioning, so perhaps you will have time to elaborate on what you said.

I will begin by talking about Transport Scotland. The permanent secretary wrote recently to advise the Public Audit Committee's convener that Transport Scotland and the Scottish Government's transport directorate are to merge, following the

Government's internal shaping up review. At previous committee meetings, we discussed the relationship between policy making and Transport Scotland's functions, but at no point was the change that is contemplated flagged up. Will you explain why the committee was not informed of, consulted about or made aware of the change until the letter was sent to the Public Audit Committee's convener?

16:00

Stewart Stevenson: It is worth saying that staff were made aware of the proposal at the same time as the Parliament was made aware of it. The shaping up exercise is civil service led rather than politically led. The committee will have heard previous comments that the complex structures for dealing with transport that faced us when we came into office were not what one would use if one started with a blank sheet of paper—of course, one never has blank sheets of paper. What is proposed, which will come into operation in August, will maximise effectively our use of resources and join up more tightly delivery and policy making.

The Convener: It is clear that the change will have an impact on costs, efficiency and so on—I am sure that the minister will provide details on that in due course. I assume that it will also change the relationship between ministers and the functions. Given that the two organisations were previously separate and will now become one, what will be the new organisation's status, its relationship to you as the minister and the impact on the policy-making process?

Stewart Stevenson: I do not expect the relationship between the minister and parts of what are currently two functional areas in the Government to change fundamentally. As the minister, I regularly visit Transport Scotland to meet a wide range of people at their instance or mine. The same is true of the transport directorate.

The change is not about having people passing each other on the M8 or the railway between Edinburgh and Glasgow, but about joining a little more closely the policy-making and delivery functions. It will give us opportunities for efficiency, particularly at the senior level. The work that is done at the grass roots will remain basically the same as before.

The Convener: The new organisation will be called Transport Scotland. Will it function as an agency, as Transport Scotland does now? Are policy-making functions simply being transferred from the Government to Transport Scotland? How are we to understand the change?

Stewart Stevenson: It is clear that Transport Scotland also makes policy and that ministers are

directly engaged in that. I return to my initial remark that I do not expect a change in the relationship between ministers and the activities that are currently undertaken in two separate organisations. However, what falls in the envelope that is labelled "Transport Scotland" will be redefined.

The Convener: So the organisation will still be Transport Scotland and it will acquire the new functions from the transport directorate.

Stewart Stevenson: That is correct.

The Convener: I hope that you have been apprised of some of the evidence that we heard from the first panel of witnesses and particularly from the Stockholm Environment Institute, which argued that, if we include emissions that arise from production processes overseas, Scotland's carbon footprint has increased. What measures are being taken to reduce those emissions?

Stewart Stevenson: You made two comments. First, you said that our carbon footprint has increased. It has not; in fact, as a result of the 1990 baseline for carbon dioxide and the 1995 baseline for other gases in the Kyoto protocol, it has been substantially reduced. I am not quite sure of the basis for your question.

The Convener: The Stockholm Environment Institute has argued that if we include the emissions that arise from overseas production processes and the carbon embodied in the goods that we import and the services that we buy our carbon footprint has in fact increased.

Stewart Stevenson: And if you subtract from our carbon footprint the carbon embedded in our exports you end up with broadly the same figures.

The Convener: So the Scottish Government does not have an objective to reduce consumption emissions from overseas processes.

Stewart Stevenson: If I may say, convener, that is different from the debate that we are having about the figures. By incorporating into the Climate Change (Scotland) Act 2009 the requirement to report on a consumption basis, we are not only cognisant of the need to ensure that greenhouse gas emissions from activities related to the production and delivery of services in Scotland are reduced by 42 per cent by 2020 and 80 per cent by 2050, but understand the very real risk of trying to deliver the target simply by exporting the carbon-intensive effort. However, we have not set any targets in that respect.

We are probably the world's leading country in seeking to identify the carbon costs associated with our activities and projects, but the fact is that from the information available we cannot be certain about the true normalised carbon price for—for argument's sake—the production of food

that comes into Scotland from quite distant countries. After all, there is no worldwide standard for carbon accounting that has the same credibility, academic provenance or level of engagement in international institutions as, say, the international financial reporting standards for financial accounting. I am uncertain about the length of time that it took to work up the IFRS, but it probably took longer than a decade in a domain of activity that is comparatively well understood. I suspect that it will be many years before we have anything comparable that enables us to understand properly and on a comparable basis the true carbon costs of the things that come to Scotland, the carbon of which has been emitted elsewhere. As a result, there will be uncertainties and inconsistencies in the reporting of carbon consumption, but they will diminish over time.

The Convener: Accepting that there is a degree of uncertainty in how these things are measured, I come back to my original question. What measures is the Scottish Government taking to reduce emissions that arise from production processes overseas?

Stewart Stevenson: It is clearly for the Governments of the countries overseas to reduce carbon emissions. I am not clear how we can directly influence the carbon costs of Kenyan beans or Brazilian beef.

The Convener: We will discuss procurement issues later, but surely Scottish Government spend could have an impact. After all, the Government makes decisions on whether, for example, to import the Kenyan beans that are served in schools, hospitals and prisons—although I have to say that I do not know whether prisons get Kenyan beans.

Stewart Stevenson: That is a subject on which I have some now probably obsolete knowledge—not, I hasten to add, as a prisoner but as someone who is familiar with prisons from visits and from having one in his constituency.

The bottom line is that Scotland is seeking to focus primarily on areas in which we can make the biggest impact at the earliest point, in relation to activities that are undertaken in Scotland. Of course we seek to ensure that we procure in a way that is consistent with reducing the production of greenhouse gases in Scotland. Albeit that we have no targets for consumption, because of the imponderables of measuring consumption figures, given the uncertainties about the carbon that is associated with production, the issue will influence the way in which we behave and the way in which we procure.

The Convener: Are specific measures being taken that are designed to reduce emissions that arise from production abroad?

Stewart Stevenson: We clearly face a variety of environmental pressures. Rising levels of consumption in general are part of that. We are taking the lead, for example by planting 100 million trees in Scotland to make us more sustainable in terms of wood and thereby reduce our impact. Such steps will have the effect of reducing the import of other people's carbon, but ultimately it is for foreign Governments to take the much more substantial steps that will have an impact on the carbon that they use in their production processes.

The Convener: I think that that was a no.

Are there any win-win ideas, whereby adapting to or mitigating climate change can not just reduce the negative impacts on society and the economy but save money in the Scottish budget? We have discussed the topic with previous panels. Given the situation that we expect during the next few years, cuts could happen in a way that will make climate change harder to solve or in a way that brings immediate carbon savings.

Stewart Stevenson: The committee has probably heard me say this—I have certainly said it on a number of occasions, in a number of fora. As with the commercial world, so in government, it is the case that energy is a significant cost, so it is a natural economic driver that one should look to reduce one's energy use and to get more out of the energy that one must, of necessity, use.

Our seeking to become the green energy capital of Europe is a way of building our economy for the future, and by increasing the amount of green energy that is consumed at the expense of non-green energy, we also tackle the issue and deliver economic benefit to the community as a whole. If we reduce the energy that we use, we reduce our costs—all that is part of what we are seeking to do.

We are making substantial investment in transport, for example in the electrification of the rail network. The rather general figures probably understate the savings when they suggest that the approach will reduce the carbon cost of journeys on the rail network by 25 per cent. That is based on a view of the mix of electricity sources—I think at UK level—but I think that savings will be even greater in the real world, because we will go more renewable. We are focusing on investments that make that difference, as well as ensuring that we focus on a range of ways of saving energy.

Of course, we are also seeking to ensure that our estate is more energy efficient. Scottish Water is considering using the many sites that it has in Scotland to install wind turbines, which will generate electricity that is often used locally, thereby reducing transmission losses, changing the balance and making things more cost effective. So much is going on.

Cathy Peattie: Minister, you have said:

"climate change comes at a cost."

What economic costs are associated with climate change?

16:15

Stewart Stevenson: In his report, Sir Nicholas Stern identified—as I think that we are all aware, at least in this forum—that the cost of not dealing with climate change could be 20 per cent of GDP and the cost of dealing with it could be in the order of 1 to 2 per cent of GDP. Therefore, although dealing with climate change involves the spending of money, if we do not deal with it, we will spend a great deal more money. There is clearly a good economic driver for going in the direction that members of the committee and members of the Parliament clearly wish us to go.

Adair Turner, who is the chairman of the UK Committee on Climate Change, put it well when he spoke to one of the Westminster committees. He said that we should consider the cost of 2 per cent against the background of long-run economic growth of 3 per cent. At the moment we are not experiencing that level of growth for obvious reasons—the growth that we might have expected to have had in January 2050 we will instead reach in August 2050. That gives us the sense that we simply have to afford to spend that relatively small amount of GDP to solve the problem because it saves money and gets us towards our climate change targets. When we consider the matter in the terms in which Lord Turner expressed it, we see that it is not quite the challenge that we sometimes imagine it is when we are so close to the problem.

Cathy Peattie: I will stay on the theme of spending. Given the future constraints on public spending that is directed at climate change, what is vital and must go ahead? What is less important and could be dropped?

Stewart Stevenson: For at least the next 48 hours plus a little bit, we all face some political uncertainty. We do not know the future actions of whatever Government the United Kingdom will have at the end of this week, next week or the week after—in the relatively near future. At least one political party that may form a Government has suggested that there would be an emergency budget in July. Therefore, we are in a period of significant uncertainty about the funds that will be available to us.

Even on the best possible scenarios, there will be significant reductions in funding. Each political party has articulated its response to that and made its choices about what it would stop spending money on. This Government has made it clear that

it would prefer the Westminster Government not to spend money on arms and identification cards, for instance. There are ways in which money can be saved instead of affecting our ability to deal with challenges such as climate change.

We will produce a report on policies and proposals for dealing with climate change in the early autumn. I hope that, at that stage, we will have rather greater clarity than we do today about what financial resources will be available to us. It is just slightly unfortunate timing that we are discussing the matter today.

Cathy Peattie: Can you not tell us what is important and what could be dropped or is less important?

Stewart Stevenson: We have laid out our budget for the current year. It shows the different areas that we have identified for spending. I am pointing to the fact that there is uncertainty about whether the allocation of funds to Scotland will allow us to deliver on that budget, which the Parliament voted on and agreed to earlier this year.

Cathy Peattie: You must have had plans until now.

Stewart Stevenson: The plans are articulated in our budget.

Cathy Peattie: You seem to be basing your reply on what might happen or on issues that are reserved. I would like to know, given the budget, the plans and the Climate Change (Scotland) Act 2009, which you and I are very proud of, what is important to the Government. I accept that some things may be less important.

Stewart Stevenson: I make the point that we will make policy proposals in September—we have always planned to do that at that time. I am merely pointing to the rather obvious difficulty that will exist if the amount of money that is available to us changes from the basis on which we put forward our budget and on which the Parliament approved that budget earlier this year.

Cathy Peattie: I think that we will want to come back to that.

The Convener: I have a supplementary question. Minister, I take your points about the current financial year's budget, which has been passed, and about the prospect of an emergency budget, should that come to pass. However, we are also looking at 2011-12 and further ahead. The Scottish Government must have contemplated different scenarios based on various levels of cuts that might be imposed or required. It would be helpful if you gave some indication of your thinking on that.

Stewart Stevenson: In advance of our knowing what finance we will have in the next three-year spending review, it is difficult for me to give a response that would in any way align with the outcome that we will get when we know what funding is available to us.

The Convener: Has there been no attempt in the areas under your responsibility in Government to think about what you might have to cut?

Stewart Stevenson: It is speculative to talk about cuts or increases, projects or non-projects, in advance of knowing what funds are available.

The Convener: It is speculative; I am asking whether you have speculated on it and what those speculations are.

Stewart Stevenson: I do not speculate with committees. I am held to account at committees for the decisions that we bring to the Parliament and the action that we take. I do not think that speculation is helpful to either side of the table.

The Convener: The committee's role in scrutinising Government is not just about whether, after the fact, we like the decision that you took; it is also a question of satisfying ourselves that some of the serious questions that need to be asked are being asked. It would be a problem if the Government faced having to make an immediate decision after an emergency budget without having previously thought through what the scenarios might be.

Stewart Stevenson: Let me assure you that we consider the questions. I am saying only that one cannot determine the answers until one knows the context in which the questions have to be answered. Until one knows the finance that one has, one cannot answer the questions.

The Convener: One could choose to explore what the options might be; you are clearly choosing not to.

Stewart Stevenson: Clearly, since I do not know what finance will be available to me for the three years after the current year, it is very difficult for me to tell you how I will spend that money—the amount of which I know not.

The Convener: As I said, I am looking not for a prediction, but to know whether you have explored options for the various scenarios that you might face. If you are not able to answer that question, we will simply move on.

Stewart Stevenson: We have objectives that we wish to progress, and our ability to do so will be supported or constrained by the money that becomes available to us.

The Convener: We will move back to questions from Cathy Peattie.

Cathy Peattie: I want to continue on the funding issue; perhaps I will get a similar answer. What are the main elements of the public sector's role in building a more resilient Scotland in the context of climate change? How might spending constraints impede the public sector in fulfilling that role?

Stewart Stevenson: That is a perfectly reasonable question. The public sector generally has an important role to play. When I say "public sector" I include local government, for example—I am not simply looking at the areas of the public sector for which the Scottish Government is responsible. Indeed, for that matter, I include the United Kingdom agencies that operate in Scotland in non-devolved areas, and the European Union to the extent that, in particular through its emission trading scheme, it has a huge influence on what goes on in Scotland.

Let me dispose of that one briefly, and not say anything new. We will continue to press—as the UK Government is doing, so let us not make a division where there is none—for an increase in the targets that are in the European trading scheme. They are currently 20 per cent, but in the United Kingdom we want them to go to 30 per cent.

Many of the energy efficiency actions that local government is likely to take are already in action. What we can do, working with the Convention of Scottish Local Authorities and with local authorities, is to make sure that best practice is shared, because different councils are moving at different paces on different subjects. There is a public sector climate action group, which I chair jointly with the COSLA spokesperson, Alison Hay. I think that that meets quarterly.

Gavin Barrie (Scottish Government Energy Directorate): Every two months.

Stewart Stevenson: That feels about right; every two months. The group also cross-connects to the 2020 delivery group, chaired by Ian Marchant, which is outside Government but works very closely with Government. We are trying to ensure that we have all the bits joined up and that different levels of Government work together. I go back, for example, to energy being a very significant cost for all parts of the public sector, as it is for the private sector. We would expect central procurement of energy, for example, to help manage costs. We have a range of ways in which we are working together. We will have to give guidance on climate change duties to public bodies, and we are working on that. There will be a public consultation on that over the summer and we will be engaging at an even greater level on that subject.

Cathy Peattie: If the public sector comes back to you and says, "We recognise our responsibility

but, given spending constraints, we cannot do anything," how will you look at public sector plans and what kind of reporting and monitoring will you put in place? What will you do if the public sector says that there is not enough money to do what is asked and that it is not playing?

Stewart Stevenson: I do not expect, on the basis of the body that Alison Hay and I jointly chair, that the public sector will come back and say that it cannot do anything. Without having got to the point of being specific about what the public sector might do, I am clear that it will not say that—if only because in areas such as energy efficiency you can save money without spending money, to be blunt. I am clear that things will happen. We will seek to find ways of building partnerships that make things possible and which leverage in the maximum economic and greenhouse gas benefit for the expenditure that is available to each of us. I am quite clear that we will do that. Part of the reason why we sit down and talk and listen to one another is to understand which things are relatively easy to do and can be done within the financial envelopes in which we operate and those that we will have to defer until another day. That is absolutely clear, and we will continue to work on that basis.

Alison McInnes: Having outlined the strategic groups that you have set up to take things forward, can you identify some specific steps that you have seen local authorities take towards national outcome 14—the undertaking to reduce the local and global environmental impact of consumption and production? I realise that that is a very grand claim, and it would be good to start to look at the specific things that local authorities have been doing.

Stewart Stevenson: Planning policy is an obvious and useful thing to point to, because it shows that, quite simply, local authorities are not starting from ground zero. Many local authorities have been doing work in this area for some considerable time.

The local authority in which Alison McInnes served most recently has for a long time had planning policies that have a presumption against development in the countryside. In part, that has been driven by the need to ensure that carbon footprints do not increase. There is also an economic issue for the council, in that services can be delivered more economically to clustered developments. Reducing greenhouse gases is not the only driver, but it has certainly been a key part of the decision making.

16:30

The same is true elsewhere. For example, Fife Council has examined waste production closely

and has reduced waste from 96,000 tonnes in 2007-08 to 88,000 tonnes in 2008-09. South Lanarkshire Council is considering getting its development strategy to meet the declarations that it and other councils have made. It is working on that with the Carbon Trust in Scotland. There are examples of measures that councils in different parts of Scotland have taken. Through the group that Alison Hay and I chair and the contacts that we have with individual councils, it is pretty clear that a wide range of approaches are being taken.

One key thing that we should do is ensure that when, for example, Fife reduces waste, the methods by which it has done so are understood by the other 31 local authorities and, where appropriate, copied. Of course, there is the issue of urban versus rural—not everything moves usefully from one authority to another. A lot is going on. I cannot imagine that there is a council that is not engaged on the issue. However, councils are engaged to different levels.

Alison McInnes: You are probably right that lots of activity is going on throughout Scotland. Do you see any need to channel that activity in a particular direction, or should the approach be only a bottom-up one?

Stewart Stevenson: I am clear that, without a bottom-up approach, we will fail. Equally, if we do not give councils the responsibility and opportunity to develop local responses and to innovate locally, they will sit on their hands and wait for somebody else to do it. That applies more broadly than just to tackling climate change. To be blunt, we must mobilise everybody and their thinking. I certainly do not want to suggest that what local councils do and think should come solely, or even mainly, from the centre. However, the Parliament has set targets that affect the whole of Scotland, including the private and public sectors and central and local government. There is a role for setting targets and for ensuring that we understand the contribution that is being made.

Because of the way in which the public sector is defined in the 2009 act, each medical and dental practice is an individual component of it. We will need to ensure that each one of them as well as local authorities and all the other public bodies—some 7,000 of them come under the definition in the act—make their contribution. We must also be there to provide help for them to do that and ensure that, at the end of the day, it all adds up to the sums that we need.

Alison McInnes: In your earlier answer on energy efficiency, you said that you expect departments and public bodies to secure energy efficiency savings, which will of course provide budgetary and carbon savings. What hard evidence is there that all the departments in your

Government are mainstreaming the adaptation and mitigation efforts?

Stewart Stevenson: One key feature of the way in which Government was structured after the most recent election is that we now have directors general, who have responsibilities that transcend the area that they manage. They are responsible for delivery across Government. Of course, work on climate change is the ultimate cross-cutting activity, although it is by no means the only one.

You can be absolutely sure that the civil service board, which includes representatives of all parts of the public sector, is engaging all parts of Government. Through initiatives such as the 2020 business delivery group and the group that Alison Hay and I chair, to which I keep coming back, we are seeking to join the dots. There is always a danger of creating so many different initiatives that they do not meet and share activities. In our view, we have probably got the balance right at the moment. For example, Transport Scotland was one of the first parts of Government to produce a travel plan for staff. Other parts of Government are now doing similar things. However, it will be some time before all of the lessons have moved to all parts of Government.

Alison McInnes: Energy efficiency is the simplest and easiest thing to do. We have known that for a long time, but it appears that it is still not being delivered. We heard from a previous panel that energy use has gone up in the Government's estate. Can you provide us with hard examples of where you have started to make a difference there?

Stewart Stevenson: I would be astonished if energy consumption had risen in our estate. I have no idea where that suggestion comes from.

Gavin Barrie: The latest report indicates that there was a short-term increase in energy consumption in some of our main buildings. At Victoria Quay, for example, a new lighting project is being installed. Once that project is finished, energy consumption is expected to go down.

Stewart Stevenson: I am so glad that I brought him.

Alison McInnes: You are using a lot of conditional language—Gavin Barrie said that consumption is “expected to go down”, for example. I would have expected that, by now, we would be able to see hard facts. I invite you to write to the committee about some of the schemes where such facts have been seen.

Stewart Stevenson: In the project to which Gavin Barrie referred, we are making an investment to reduce the energy consumption of a building that houses 2,000 civil servants. As he has just reminded me, during the installation

period we have in place all sorts of temporary measures that are causing consumption to go up for a brief period.

The Convener: If you write to the committee, it would be helpful if you would look not just at examples such as the lighting project but at the whole three years during which the current Scottish Government has been in place and at what has been achieved by various departments, not just the Government estate, to reduce energy use overall. It would be less helpful for you write to us with just one or two specific examples—a broader sweep would be welcome.

Stewart Stevenson: There are 12 separate initiatives on which I could readily comment—I refer only to those initiatives of which people have made me aware.

Alison McInnes: When the carbon assessment of the draft budget was published last year, the document stated that

“further work will be required to refine the methodology and develop the functionality of the tool.”

What further work has been undertaken on the carbon assessment tool? How will that impact on the outcome of the assessment?

Stewart Stevenson: At the moment, I cannot give you a timeline for the next iteration. I make the general point that it will remain a work in progress for a substantial time to come, because no other country in the world has developed such a tool. I believe in copying good ideas from anyone; I would love to be able to do so in this case, but I cannot. We are doing a lot of additional work to ensure that we understand what is happening and are able better to analyse it.

The carbon assessment tool is simply one of the range of tools that we have. We have not yet reached the position of normalising the approach that is taken to projects involving different modes of transport. I have said to the committee before that, under the current methods of measuring, the Edinburgh trams project is the most carbon-intensive project that we are undertaking—one might conclude that that is rather surprising. However, that is because the only figure that is available from the DFT in relation to the consumption of energy by a tram is a combined figure for trams and light railways; it includes light railways that are actually diesel powered. The series of assumptions that are built into the modelling means that it is proving difficult to make comparisons, and an awful lot of work remains to be done.

What I will seek to do, because it is a perfectly reasonable question, is to ask when the next iteration will be. I will ensure that the committee is made aware of that—or perhaps, at this stage,

that it is made aware of when we will be able to tell you when the next iteration will be. I got a nudge from my colleague.

Shirley-Anne Somerville: Given what you have just said, it might be impossible for you to answer my first question. I was going to ask whether there have been any changes to the carbon assessment methodology for future years. Is it too early to go into detail on that?

Stewart Stevenson: It is too early. A lot of parallel work is going on, as I have said. We continue to look for ways in which to improve the assessment and to normalise how we state the carbon costs, both in terms of seeking to measure the embedded carbon in a project—the carbon that we invest to bring something forward—and in terms of the operational carbon that is associated with running a project. To be frank, however, we cannot yet make the like-for-like comparisons of carbon that we can make in financial terms.

Shirley-Anne Somerville: In its report on the budget, the committee stated:

“it would be beneficial for the Scottish Government to seek independent advice and an assessment of the appropriateness and effectiveness of the methodology chosen.”

Does that form part of the work that is being done?

Stewart Stevenson: Our main source of independent advice on climate change matters is the UK Committee on Climate Change. We are working with a wide range of stakeholders and experts on the subject, but again, given that we are leading the way, there are not many people who can come to us and say, “We’ve done it, and here is the outcome.” We are hugely ambitious in what we are doing and we will listen to and engage with anyone who appears to have good ideas on the subject.

Shirley-Anne Somerville: So there is at least a commitment to develop and increase the use of the carbon assessment tool so that we can get more information out of it. It is very much a first step and it will be developed. You are not in a position to tell us how that will be done, but is the Government still committed to developing the methodology as the years go on?

Stewart Stevenson: It is very much a first step. Indeed, it is probably at such an early stage compared with where we want to get to eventually that its publication should lead to a longer list of questions. At the current stage, we might not know all the questions, far less all the answers. The more work we do on the subject, the more our and other people’s understanding will increase and the more we will understand the nature of the challenge and the work that we need to do.

I do not seek to mislead anyone into imagining that we have the perfect plan of activities that will take us to the end of the road. The plan is incomplete because our understanding is incomplete. We are simply the first country to seek to do this work.

Shirley-Anne Somerville: The climate challenge fund is one of the most important funding streams in the climate change budget, certainly from the perspective of communities. We talked earlier about whether you can guarantee funding for particular projects, but I ask you to address that with specific reference to the climate challenge fund. Has there been a review of the fund's effectiveness and what it has delivered in terms of emissions reductions, with a view to continuing that funding?

16:45

Stewart Stevenson: Each of the several hundred projects that are related to that fund has associated with it a projected carbon saving. I am not certain whether any of those projects has yet reached completion—my colleagues who are with me at the table are not giving me any help in that regard at the moment. As part of the process, we will review the outcomes of each of the projects and determine what carbon savings we were able to get in return for our investment.

It is worth saying that the projects are of variable character. Some have relatively large expenditures for relatively small carbon outputs, because they are building capability for further work that communities and bodies will undertake at a later date. Even within that, there is a wide range of tonnes of greenhouse gas that we might be able to save for every pound that we spend. Part of the selection of projects involved getting as wide a variety of projects as possible because—as was suggested by one of the members of the previous panel—not every project will have the same success, as some of them are extremely challenging.

The review of the outcomes of the projects is an important part of our consideration of what we do next. However, the fact that we had nearly 700 expressions of interest is a clear indication that communities and third sector bodies across Scotland saw the need to reduce carbon emissions and the opportunities that were presented by the climate challenge fund.

Charlie Gordon (Glasgow Cathcart) (Lab): My first question was going to be about Scottish Water, but I will take the minister's opening statement and evidence at face value at this stage, although I recall him being equally bullish not so long ago about the Glasgow airport rail link.

I am aware that the minister has been kept waiting a long time to give his evidence today and, given the lateness of the hour, I appreciate that he might have to rush off after this session and do something useful on behalf of the country—for today's purposes, I do not include electioneering in that.

My question might have a familiar ring. How will the Scottish Government prioritise future expenditure on transport capital projects to ensure that any projects that go ahead provide the greatest benefits to the most people?

Stewart Stevenson: It was no inconvenience to arrive here a little earlier, convener; it just meant that I had to get the earlier bus from Victoria Quay—note that I travelled by bus—and that I had the opportunity to hear some of the previous panel's contributions.

Transport capital spending comes from a number of sources so, in a sense, there is not necessarily a financial tension between some of the choices that one makes in that regard. For example, a substantial proportion of the investment that we make in railways is through the regulated asset base. Network Rail is a public company that is independent of any Government but is controlled by the Office of Rail Regulation, as the vehicle through which the Governments at Westminster and Edinburgh set the policies that they want to be delivered. It has the ability to borrow money at highly competitive interest rates, partly because it can borrow the money from Government and from elsewhere. That is Network Rail's pot, if you like, and we have made substantial investments via that route.

When we put in the high-level output specification for the control period from 2009 to 2014—that was the first time that that had been done from Scotland—we did so with a hierarchy of three levels, which created a bit more flexibility in comparison with the way in which the situation had been tackled in the past. In particular, we have moved ahead with electrifying the railway between Edinburgh and Glasgow, although electrification will go up to Stirling, Cumbernauld and so on. That significant programme of electrification will, as I said earlier, intrinsically reduce energy use by 25 per cent—using the consistent way of measuring these things. Of course, as we green our electricity, we will reach a point at which, in effect, the energy used will be 100 per cent renewable.

It is interesting to note that a different view of electrification is now being taken south of the border, where a substantial electrification programme is also being considered. For example, promises have been made to electrify the line from London to Cardiff. We are working with the Department for Transport to make sure that our respective plans are synchronised, so that

we do not bid for the same resources in the market.

On the road network, we are still seeking to address gaps in the national infrastructure—the Aberdeen western peripheral route and the M80, for example. The expenditure on and timetable for the M74 are on target. Of course, in the strategic transport projects review, we had a hierarchy of priorities, and our top priority for the years to come is to continue to invest in the road network to improve safety where the road architecture contributes to accidents. That is particularly important in times of financial constraint, although the extent of that constraint is yet to be determined.

It is worth saying that the proportion of accidents in which the road architecture is a significant causal factor is diminishing. Twenty years ago, three times as many people were killed or seriously injured on our roads, and the proportion of accidents caused by the road architecture was much greater. Many of the interventions made over those 20 years have contributed to that reduction. Increasingly, the challenge in relation to the road network will be to change the architecture of what goes on between the ears of road users, be they drivers, cyclists or the occasional inebriated pedestrian who risks life and limb.

We are investing more in cycling and are also focusing on improving the amount of time that people spend walking. We are also getting a good return for our money from canals, and are investing in transporting freight by water and rail. However, the money all comes from different pots and it is not always possible to move it around. Fortunately, on railways, where it is generally recognised that we get a good climate change return for our money, we have an environment that may—and I emphasise may—be less affected than other areas.

Charlie Gordon: You mentioned the Aberdeen western peripheral route. I will ask you about that and about another road scheme—the new Forth crossing. Indeed, I will also ask you about a railway scheme that is not going to be funded via Network Rail's credit card—the Borders rail link. Are finances in place for any or all of those projects?

Stewart Stevenson: The finance for the Borders rail link will be via a non-profit distributing route, and five consortia have expressed an interest in that. That is a substantial response to our publication of a notice in the *Official Journal of the European Union*. In legal terms, the project started at the beginning of March this year. The vehicle that we are using for that project is different from the regulatory asset base approach. Having considered the various options, including the regulatory asset base approach, we concluded

that, given the interest in other financial models, we could use the NPD route—that is the one that came out ahead.

All but two members of the Parliament voted for the orders on the AWPR. The objection period ends on Friday of this week. We expect to proceed with the AWPR as we have done with the Borders railway, and we expect there to be a similar level of interest. We are including park and ride as part of the investment in the AWPR project, simply because it is convenient, in financial terms, to package those elements together.

The committee will continue to take an interest in the Forth replacement crossing, despite the fact that a dedicated committee is considering the Forth Crossing Bill. The stage 1 debate will be held later this month—around 27 May, I think. We will see what the Forth Crossing Bill Committee reports—it has not yet published its stage 1 report. The project will be funded from our own resources.

Charlie Gordon: Why does the Government take the view that it is okay for the Aberdeen western peripheral route and the Borders rail link to be off balance sheet, in Treasury terms, but not okay for the additional Forth crossing to be off balance sheet?

Stewart Stevenson: I counsel the member not to express it in that way. Those projects are actually on balance sheet. When the international financial reporting system came in, a whole series of protocols were associated with it—about 40, if I recall correctly. Basically, if Government provides the money that provides the finance, it comes on balance sheet, even if money is borrowed elsewhere. Initially, that was a significant problem, until the Treasury changed the rules, which it did within the past year—I cannot give you the exact date. The projects are now on balance sheet, but they no longer count against the capital spending. In financial terms, they look as if they are off balance sheet. In accounting terms, however, they are now counted on balance sheet. I am sorry to be technical, but I wanted to—

Charlie Gordon: Nevertheless, that is still advantageous. Otherwise, you would do them all in the way that you plan to do the Forth crossing project.

Stewart Stevenson: Correct.

The M80 project is a design, finance, build and operate project—a private finance initiative project—which was at a particular stage of development when we inherited it on coming into office. We considered alternative financial models for the project, and we concluded that an NPD approach would be cheaper. However, to change stream at that point would probably have caused a year's delay to the project, which would have increased the cost of carrying out the project and

more than negated the savings from changing the model.

When we consider direct procurement, DFBOs, public-private partnerships, PFIs or NPDs, timelines are part of that consideration. It has become clear that the financial markets have recovered to a point at which one can construct and finance projects of the size of the Borders railway or the AWPR—both costing several hundred million pounds. However, when we were completing the finance for the M80, which is a smaller project, it was immensely difficult to reach financial close because of the instability in the financial markets.

When we considered the Forth replacement crossing, it was absolutely clear, in examining six different models, that the only one that could be delivered and was affordable was direct finance from ourselves. There was no indication of any kind that the market could provide that size of chunk of finance for the project.

Of course, even if things were to change, changing horses now would delay what is a very big project by 18 months to two years. That would put up its cost and compromise the drop-dead delivery date of 2016, which remains the date at which it might be necessary to remove heavy goods vehicle traffic from the existing bridge.

These matters are complex and outcomes are driven to some extent by the size of individual projects and their financial needs. As far as the three projects that you highlighted are concerned—and there were others that you could have mentioned—I am really satisfied that we have got the right answer.

17:00

The Convener: You have said quite a lot about existing spending and projects that are to some extent already under way. Can you move on a little bit and say something about how the Government intends to approach priorities for future expenditure, given that budgets are likely to come under a great deal of pressure? How will you prioritise future spending to ensure that you achieve not only carbon cuts in transport, for example, but the greatest social benefit?

Stewart Stevenson: I return to the strategic transport projects review, which I make clear is about surface transport. In the review's hierarchy of investment, the top level comprises investments that would make transport safer. The middle level consists of investments that would enable us to drive up utilisation of the existing infrastructure. That includes intelligent traffic management systems that vary speed limits at different parts of the network, and hard shoulder running for public transport, for which we might have to make some

investments, particularly at motorway junctions. After all, you cannot simply have a bus shoot across a junction without taking some cognisance of the fact that the traffic outside the bus has to cross over a lane of bus traffic. Finally, at the bottom level of the hierarchy are investments that would deliver economic value.

As far as the STPR is concerned, we have always said that our investments will come from the portfolio of what I point out are 29 interventions, not 29 projects—17 of which, incidentally, are public transport interventions—and our decisions will be based on the availability of funding. It is absolutely necessary that we express it in that way, because we are looking 20 years out and I do not think that many of us, with the best will in the world, have a particularly clear view of what the world will look like in 15 years. In fact, given the three-year review period that we are about to enter, I am not sure that we have a terribly clear view of what it will look like in 15 months.

The Convener: In previous evidence sessions, the Sustainable Development Commission and others made arguments about the infrastructure projects that the Government has chosen to support. Of course, that will not come as a surprise to you, minister. After all, most of those organisations have been very consistent in arguing that the Government places too much emphasis on infrastructure projects that lock in unsustainable travel patterns and behaviour. Some have talked about “grand capital projects”, while others have referred to “unsustainable infrastructure”. I assume that the Scottish Government will be equally consistent in rejecting that view.

Stewart Stevenson: If someone could point me to some specifics, I might be able to comment on them.

The Convener: Some have already been mentioned. Certain road building schemes, for example, will facilitate an increase in road traffic levels, and it has been argued that they will simply lock in unsustainable behaviours.

Stewart Stevenson: It is perhaps worth reminding ourselves of the day on which the Parliament considered the road orders for the AWPR. As I said to the Parliament, the carbon cost of the scheme, when it has been built, will be 10,000 tonnes. However, on the same day, the Parliament approved the draft order on the carbon reduction commitment energy efficiency scheme, which will provide a carbon benefit that is some 40—nearly 50—times as great.

We have always sought to say that although we are likely to continue to make investments that will have a carbon cost, the totality of the programme

must deliver a significant reduction in greenhouse gases. When we considered orders on the AWPR on a day on which another order under my area of responsibility was being considered, we saw what that means in practice. We will continue to work on that basis.

The Convener: You mentioned the M74 extension, which will lead to an increase in emissions every year of some 50 times the figure that you mentioned.

Stewart Stevenson: No.

The Convener: I do not think that the figure has been questioned. The public local inquiry accepted it.

My argument is that if we want to achieve the behaviour change that previous witnesses to the committee have argued for, whereby there will be reduced demand for transport and reduced traffic, we need to build the infrastructure that facilitates such decisions instead of allowing people to carry on making decisions that lead to increased transport demand.

Stewart Stevenson: As far as I can see, the only 500,000 tonnes figure that is associated with the M74 project is the 500,000 tonnes of aggregate from demolition that will be recycled in the building of the road.

The Convener: Will you respond to the wider point? We can disagree until the cows come home about what the carbon impact will be from the additional journeys that are generated by the M74. The argument is that if we want people to reduce their transport demand, as has been clearly and consistently argued for by witnesses to the committee, we need to invest in choices that will facilitate that. However, we are currently building infrastructure that will support continued unsustainable transport behaviour.

Stewart Stevenson: The first of 130 new class 380 rail carriages will be deployed on Scotland's network in September. There has been significant investment in the rail network on the line to Kilmarnock. In a few weeks' time, two new platforms will open at Glasgow Central station. Those of us who travel on the railway to the west of Edinburgh will have seen electric overhead wires being installed for the Airdrie to Bathgate line. Work has been commissioned and is being undertaken to investigate where the overhead posts will be put on the main line through Falkirk, as part of the Edinburgh-Glasgow improvements programme. We are making substantial investment to give people choices that will enable them to travel more sustainably. The new carriages will provide 9,000 extra seats on our rail network.

The Convener: I do not think that any of our witnesses would argue that the additional spending on public transport is a bad thing; they would argue that it is happening in addition to rising road traffic levels, which mean rising emissions. If we want to reduce emissions we need to provide alternatives, not additions.

Stewart Stevenson: The fuel economy of the cars that people can purchase and drive on our roads has improved by 50 per cent or so during the past five years. There will be a move towards more sustainable road transport as a result of the introduction of greater numbers of electric cars and hydrogen-powered vehicles. We are making moneys available so that we can have hybrid buses on our road network.

Roads will continue to play an important role in our transport infrastructure, as they must inevitably do. We are taking the steps that are necessary to ensure that road transport becomes more environmentally friendly, as well as providing additional offerings for goods and passengers on rail and bus.

The Convener: What does the prospect of tight financial circumstances do to the space that will exist for spending on other projects, including walking and cycling, and the maintenance of the trunk road network, as opposed to the building of new roads? What do you expect to happen to such spending areas over the coming period?

Stewart Stevenson: I will discuss one of the things that shows our interest in the subject. We have £76 million of consequential from the UK budget that has just been passed—we will leave aside whether that might be contaminated by future change—of which £10 million will be spent on sustainable transport. That is a significant part of the consequential and we will produce detail of that spend in relatively early course. We will take every opportunity that we can get hold of to improve sustainable transport, as we have done with the Barnett consequential.

The Convener: I apologise to Alison McInnes, as I missed her supplementary question earlier.

Alison McInnes: That is okay; it ties in quite well with the current question, although it will challenge the minister on something that he said in response to Mr Gordon. The minister said that he had invested more in cycling, but that was certainly not the evidence that we heard during our inquiry into active travel, which has just finished. Will the minister give us some hard evidence of that greater investment in cycling, or otherwise lend me his rose-tinted spectacles?

Stewart Stevenson: Recall that a substantial amount of expenditure is through local government. I can write to the committee on expenditure on cycling throughout Scotland.

Charlie Gordon: I welcome the extra £10 million of Barnett consequentials for active travel. It shows the influence of the committee.

Stewart Stevenson: It is for sustainable travel, to be clear.

Charlie Gordon: Okay. We will wait for the detail of the minister's announcement. Is there any chance of spending the other £66 million on transport, too?

Stewart Stevenson: My persuasive powers are not always able to get every single penny devoted to transport. There are other important needs—for example, we have said that we will protect spending in the health service—so some of the consequentials have to go to other urgent priorities.

Marlyn Glen: Two weeks ago, I think, we heard concerns that the Scottish Government may not be securing best value from FirstGroup or Network Rail in the provision of rail services. How content are you that, under the current arrangements, those organisations provide best value?

Stewart Stevenson: You ask two separate questions. I will deal with Network Rail first.

Network Rail's oversight is not directly from Government. We cannot instruct it in operational matters; that is for the Office of Rail Regulation. In the current control period, the Office of Rail Regulation has sought efficiency improvements of 21 per cent. In the run-up to the control period that started in 2009, it had the view that German railways in particular were delivering infrastructure at 30 per cent less. The negotiation that took place between the Office of Rail Regulation and Network Rail, with the active encouragement of the Westminster and Scottish Governments, led to setting Network Rail the target of 21 per cent efficiencies over the control period. That is quite a tough target for Network Rail to achieve. We can see some of the issues that arise as it makes the changes.

When we commission new parts of railway—that is separate from maintaining what we have, which is another issue—we have the choice of commissioning Network Rail or using a non-profit-distributing vehicle, as we have done in the Borders. The tension from being able to choose between different routes to deliver rail services is one of the ways in which we constantly test what Network Rail can do against what the Scottish Borders railway is doing.

17:15

I am prepared to be critical of Network Rail when I need to be, but it is delivering for us, particularly on the Airdrie to Bathgate line, which has a fixed price and for which the risk is carried

by Network Rail rather than us, which is helpful. Indeed, the risk has crystallised for Network Rail in some aspects of the project. Notwithstanding the worst of winter weather, Network Rail is on target to deliver the project and we know what we are going to pay. The price is an economically proper one. Network Rail's bid had to go via the Office of Rail Regulation to determine that it was what is termed an economic price. At the start of the negotiation process, our view and that of Network Rail were some distance apart, but the Office of Rail Regulation drew the price much closer to our view rather than Network Rail's initial price.

The regulation environment is working reasonably well. We are already doing early work on the high-level output specification for the next control period, which is from 2014 to 2019. I am absolutely sure that even greater challenges will be laid on Network Rail by the Office of Rail Regulation.

I have seen recent comments on FirstGroup, but I have not had the opportunity to bottom out the facts behind them. I do not want to give sustenance to what is being said without understanding the bigger picture. However, specifically on First ScotRail, it is the 2009 UK transport operator of the year and is widely recognised as delivering effective services. In its time with the franchise, it has driven up patronage significantly. In our service quality incentive regime, which is being copied elsewhere as a way of monitoring the effectiveness of service, the company has, I think, achieved the top levels for a rail company on all the performance indicators, except on on-train toilets. We are ensuring that ScotRail is focusing on that.

We continue to challenge FirstGroup on the quality and value of everything that it does. As a result, we got £70 million to reinvest in the railways. With hindsight, it is clear that we got the timing absolutely right when we extended the franchise—we would not have got anything like that £70 million even three, four or six months later, or earlier. The investment has been effective for the Government and it continues to deliver value for us.

Marlyn Glen: The national transport strategy is to be reviewed later this year. What impact might any future budget restraint have on the scope and contents of the strategy, accepting that you do not know the extent of the constraints?

Stewart Stevenson: The strategy, which was introduced by the previous Administration but which we adopted, has a 20-year life, so it is a long-term strategy. There was always a commitment to review it, which is right and proper. The fact that there is to be a review of the national transport strategy should not be seen as necessarily implying that there will be radical

change to it. I do not know, because we have not done the review, but we are not motivated to do the review based on an idea that we need radical change.

The strategy states priorities and does not provide a plan and schedule for delivery—that is a different thing outside the strategy. Therefore, as is the case with my remarks about the STPR, the strategy shows what the Government's priorities are and, given that we inherited and adopted it, there is a broad if not 100 per cent consensus that it represents the way forward. The strategy will inform the spending decisions that are made as funds are available to invest in transport.

Marlyn Glen: The committee has heard that consideration may need to be given to the eligibility criteria for the national concessionary travel scheme for elderly and disabled people if the scheme is to continue to be affordable in future years. How do you respond to such suggestions?

Stewart Stevenson: We have just completed a review of the national concessionary travel scheme. We concluded that we do not wish fundamentally to change it. Indeed, next year we are changing the scheme to bring disabled and injured ex-servicemen into it.

We have, properly, looked at the reimbursement rate for the bus companies. That is revenue neutral for the companies, because the underlying principle that was incorporated into the scheme at the outset by the previous Administration was that they would be no better off and no worse off. In other words, the reimbursement rate reflected the actual costs that were incurred by the bus companies. So, why has the figure come down from 73.6p to 67p? In the early years of the scheme, costs were associated with incorporating the scheme into the bus companies' processes. Transport Scotland paid for the equipment that reads the cards, but clearly a lot of changes were required in the bus companies' accounting processes and in integrating the data that come from that equipment into those processes. That is now behind us.

We have agreed with the Confederation of Passenger Transport UK that the figure of 67p reflects companies recovering the costs of delivering the service. That figure clearly gives the Government a little more headroom, which we have used as an opportunity to increase by 10 per cent the bus service operators grant because it is focused on supporting the route network as distinct from supporting individual passengers.

We have created a degree of stability in how we support the bus industry. I do not think that we can disconnect the concessionary travel scheme from the other support that we give to the industry, which is probably better than the CPT initially

thought that we would end up with. That reflects the importance that we place on the bus industry. We certainly see significant value for the users of the scheme. As always, I draw the committee's attention to my role as a user of the scheme—indeed, I used my bus pass to come up to the Parliament from Victoria Quay for this meeting. South of the border, the age qualification has been changed to align it with entry to pension eligibility. We certainly do not intend to do that.

The Convener: To follow on from that, are you ruling out any change that would limit eligibility, for example by income, so that people on ministerial salaries would not be able to access the concessionary scheme?

Stewart Stevenson: We have carried out the review. We have made it clear that we will not change the eligibility for the scheme or the scope of the services that are delivered.

The Convener: So you are also ruling out a cap on the number of journeys, which was suggested by a witness at a previous meeting.

Stewart Stevenson: That is correct.

The Convener: Thank you for the clarity.

Shirley-Anne Somerville: The minister may already have answered this question when he talked about the bus service operators grant. The committee has heard concerns that reductions in local authority transport budgets could result in the withdrawal of support for socially necessary bus services that are not commercially viable. What else is the Scottish Government doing to support bus companies to ensure that they provide services in different areas?

Stewart Stevenson: In essence, the bus service operators grant is the money that is provided to support the route network. We have increased it by 10 per cent, which is quite a significant uplift—in round figures, the increase is from £60 million to £66 million. We have given the bus companies—the CPT—what they asked for, which is greater long-term clarity because that helps them to plan. We said, "Here's the figure for the next three years."

Decisions on the support that is given to local bus services are made by local authorities. Changes in society and travel patterns mean that it is inevitable that those decisions lead to the establishment of new routes, the closing of old routes and changes to the frequency and timing of routes. It is important that that is recognised. When we negotiated with the bus industry, it indicated strongly that the bus service operators grant and the certainty that we have delivered to the bus industry would enable companies to preserve the bus network that they operate. I refer to the generality if not the individual specifics of

every bus service. We will certainly look to the industry to deliver the commitment that it made to us.

Shirley-Anne Somerville: What impact will future budget restraint have on the ferry services of Caledonian MacBrayne and NorthLink Orkney and Shetland Ferries? I am thinking in particular of the roll-out of the road equivalent tariff pilot scheme.

Stewart Stevenson: The road equivalent tariff is a great success of recent ferry policy and practice. Initially, RET was put in place as a pilot on ferry routes to the Western Isles where, over a 20-year period, we have seen a 19 per cent drop in population. Average weekly earnings on the Western Isles are some £50 or £60 below the Scottish average. If we were to apply the road equivalent tariff formula to Shetland, we would, of course, put up fares. It is worth saying that the NorthLink budget has increased from £37 million when we came into office to a figure that is now approaching £47 million. We have done quite a lot of different things.

The significant challenge for ferry transport is the rise in the cost of fuel as a proportion of operating costs. That is in part why Caledonian Marine Assets Ltd has, with some European funding, entered into a joint venture with the Northern Ireland Executive and the Republic of Ireland Government to standardise ferry design. That is not an announcement that that will happen—the parties are at an early stage of considering whether it would be practical. Among other things, they are looking at whether the next generation of ferries should be hybrid-power ferries. For example, a ferry could steam out of and into harbour under electric power, and plug into the electricity supply in the harbour for overnight recharge. If ferry engines did not have to run overnight, pollution and noise would be cut. That is only one of a series of options that is being considered.

Over the longer term, that will help us to get costs under control as well as to invest our environmental agenda in a transport area in which comparatively little has been done. Marine transport and aviation are unique in running on 3 per cent sulphur fuels; they are the only transport areas in which that happens. No significant effort has been made by international marine transport, or in this country, to capture and retain particulates. There is a lot to do in maritime transport. CMAL is very much on the case to try to address that and, thereby, to reduce costs.

Shirley-Anne Somerville: Will any reductions in UK transport budgets have a negative impact on transport in Scotland? I am thinking of recent press reports of a reduction in the access for all small schemes fund, for example.

17:30

Stewart Stevenson: Access for all is a scheme from the Department for Transport, on which it receives administrative advice from Transport Scotland. In essence, we are given our share and we choose how to spend it. When we planned in late autumn for the current year, we thought that the scheme would have more than £700,000, but that has been halved. It is worth saying that, even at the previous rate of funding for Scotland, achieving appropriate level access at every railway station would probably have taken the best part of 100 years. It is particularly disappointing that such a small saving, which I do not imagine is significant in the wider context of the public spending challenges, yet which affects many of the most vulnerable in our society, is thought to be an appropriate cut to make at this or any other time. I hope that that will be reconsidered.

The Convener: I thank the minister and his colleagues for taking time to answer questions. You undertook to provide written evidence that climate change mitigation and adaptation are being mainstreamed throughout Government departments in policy and in practice. This is our last evidence session for the budget strategy phase, so if you could provide that written information by the end of the week, that would be extremely helpful to us in preparing our report.

Alison McInnes: The information was about energy efficiency in particular.

The Convener: The issue arose in the context of energy efficiency. It would help if the response covered that, but it could cover broader issues.

Stewart Stevenson: As you have set a rather challenging timescale, I ask for clarity. Although the context was energy efficiency, are you making the question more general?

The Convener: The issue was really the integration and mainstreaming of climate change objectives in Government departments.

Stewart Stevenson: I will certainly ask for the information to be provided. I give the caveat that, if we had more time, the committee might receive something more substantial, but we will do our best to meet your timetable. I accept that your need is valid.

The Convener: Whatever can be provided in a time that allows us to consider the information before we report to the Finance Committee would help. Thank you all very much. We have one further agenda item, which we have agreed to take in private.

17:33

Meeting continued in private until 17:49.

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