The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 29 June 2011

Session 4

Wednesday 29 June 2011

CONTENTS

Col.

DECISION ON TAKING BUSINESS IN PRIVATE 15
INFRASTRUCTURE AND CAPITAL INVESTMENT 16
REPORTER (EUROPEAN UNION)............ 48

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
2nd Meeting 2011, Session 4

CONVENER

*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

DEPUTY CONVENER

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

COMMITTEE MEMBERS

*Jackson Carlaw (West Scotland) (Con)
*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)
*Neil Findlay (Lothian) (Lab)
*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kirstin Baker (Scottish Government)
David Middleton (Transport Scotland)
Alex Neil (Cabinet Secretary for Infrastructure and Capital Investment)
Shane Rankin (Scottish Government)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 1

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 29 June 2011

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Maureen Watt): Good morning. I welcome everyone to the second meeting of the Infrastructure and Capital Investment Committee. I remind members of the committee and the public to switch off mobile phones and BlackBerrys because they impact on the broadcasting system.

We have received no apologies.

Item 1 is to seek the committee's agreement to take in private item 4 and any future consideration of our work programme. Is that agreed?

Members *indicated agreement.*

Infrastructure and Capital Investment

10:02

The Convener: We will now take evidence from the Cabinet Secretary for Infrastructure and Capital Investment on the range of issues in his portfolio that relate to the committee's remit. It is hoped that this evidence session will provide the committee with an overview of the current and forthcoming projects, policy initiatives and developments from the Scottish Government.

I welcome Alex Neil, the Cabinet Secretary for Infrastructure and Capital Investment, and his supporting officials, some of whom I recognise from my previous role as Minister for Schools and Skills. I welcome Shane Rankin, who is now deputy director for European structural funds; David Middleton, the chief executive of Transport Scotland; Kirstin Baker, the deputy director for capital and risk; Aidan Grisewood, the deputy director of the social housing division; and Aileen McKechnie, the head of the innovation and industries division. All are from the Scottish Government.

I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Infrastructure and Capital Investment (Alex Neil): Thank you for the opportunity to meet the committee before the recess.

I will make two or three broad points by way of overview, and then we can go straight to questions to give members the maximum opportunity to ask what they wish.

The position that I hold is unique; there has never been at United Kingdom or Scottish Government level a portfolio that covers the whole gamut of infrastructure and capital investment. The First Minister decided to bring the portfolio together for two reasons. First, he wanted to recognise the important and critical contribution that capital investment and infrastructure make to the growth of the Scottish economy. The achievement of a higher level of sustainable economic growth remains the Scottish Government's number 1 priority. To do that, we need a major programme of investment in infrastructure and related matters.

Secondly, because of the squeeze on public finances, we face a difficult time in finding the capital to invest to realise our ambitions for investment in our infrastructure. We now have a mainstream capital programme for our £2.5 billion a year block grant from Westminster. We have topped that up with a £2.5 billion non-profitdistributing programme that the Scottish Futures Trust is taking forward, and we are looking at other ways of mobilising capital investment in Scotland through, for example, the national housing trust initiative, which will generate an additional 700 houses in Scotland.

We are also taking forward the tax increment financing proposals. Three have already been approved and we have invited tenders for another three. We are looking at innovative ways of trying to get other capital, such as pension fund capital and individual savings account capital, into funding housing and possibly other infrastructure projects over the next five years or so.

However, I do not underestimate the scale of the challenge. We should remind ourselves that, as a result of the cuts that the United Kingdom Government is making, the money available for capital spend from the main block grant has been reduced by 36 per cent over the four-year period of the UK spending review. By any standard, that is a substantial reduction at a time when, to meet the needs of a growing economy and an ageing population, demand for services and investment is rising exponentially, and there is a requirement to reach our climate change targets and fulfil our other economic and social ambitions.

There is therefore a very challenging time ahead for all of us. Our approach to that is to be innovative and ambitious while recognising that we do not have large amounts of readily available capital by way of the subvention that we get from Westminster.

Obviously, we are in negotiations with the UK Government to improve the borrowing powers to be made available in the Scotland Bill. We are doing that not for constitutional reasons primarily but for economic reasons, because access to increased borrowing powers would obviously allow us to increase the level of capital investment in Scotland. That would be of enormous benefit not just to the Government of Scotland but, more important, to the people and businesses of Scotland.

The Convener: Thank you. We have a large number of questions, which we have tried to group according to the different parts of your remit. I will kick-off. Clearly, your portfolio has quite a lot of areas of overlap with those of other Cabinet members. How does your remit on capital investment tie in with that of the Cabinet Secretary for Finance, Employment and Sustainable Growth?

Alex Neil: In terms of the way in which we are planning our capital investment, the role of the infrastructure investment board in Government, which is chaired by the director of finance, Alyson Stafford, is critical in advising not just John Swinney and me but the whole Cabinet on the priorities for investment and the best way of funding particular investment projects. That approach brings together the entire capital investment programme right across the Government.

On the division of responsibility between Mr Swinney and me, when the infrastructure investment board makes recommendations, Mr Swinney is primarily responsible for deciding on the funding sources and I am primarily responsible for the execution of the programmes. To put it more succinctly—I think that Mr Swinney agrees with this simplistic definition—he raises the money and I spend it.

The Convener: I do not know who has the better role, but it is probably you.

Your portfolio may also overlap with the local government portfolio in dealing with housing and fuel poverty. How do you see your role in tackling fuel poverty?

Alex Neil: Tackling fuel poverty involves a large number of stakeholders. About five or six years into the Parliament, we were at a point when we thought that we were within sight of achieving, even before 2016, our strategic objective of eliminating fuel poverty in Scotland. We have moved from that position to a situation in which about one third of households in Scotland live in fuel poverty.

Three key factors determine the level of fuel poverty: the level of income available to people; energy prices; and the condition of the houses in which people live. The only one of those three factors that we have direct control over is the condition of the houses.

It remains our determined target to ensure that, by 2016, nobody in Scotland is living in fuel poverty as a result of the condition of their house. However, we have no control over the price increases that are made by the energy companies. Most recently, increases were made by Scottish Power, which I believe is talking to your sister committee—the Economy, Energy and Tourism Committee—this morning about why it felt it necessary to increase power prices by 19 per cent two weeks ago. There is no doubt that the combination of higher unemployment, the squeeze on people’s incomes and the high increases in energy prices is setting back both our ability to eliminate fuel poverty in Scotland and similar work that is going on in the rest of the United Kingdom.

That said, we have been determined, despite the decreases in our capital budget, to maintain as far as possible our substantial investment in measures to tackle fuel poverty, particularly through our energy assistance package and our universal insulation programme. Between them, they will have spend this year of £48 million, which is primarily capital spend, and we estimate that the carbon emissions reduction target—or CERT—programme will be worth about £100 million in the two years in which it will continue to run. That money will also be invested in insulation and related matters in Scotland.

Nevertheless, there is no doubt that the huge increases in energy prices are having a detrimental impact on the level of fuel poverty in Scotland.

The Convener: We will come back to that issue and discuss it in more detail later in the meeting. There are other areas in which the committee sees overlap with the remits of other committees. We might work with, and perhaps take evidence jointly with, the European and External Relations Committee on European structural funds, with the Economy, Energy and Tourism Committee on procurement, and with the Rural Affairs, Climate Change and Environment Committee on digital infrastructure. Do you have any comments on those areas?

Alex Neil: I will run through those three areas. First, procurement very much lies within my area of responsibility. I am happy to discuss with you, for example, our submission to the European Commission that calls for substantive change in the directives that govern procurement policy in member states, including procurement by the Scottish Government. The Scottish Government, its agencies and the rest of the public sector in Scotland combined procure about £9 billion-worth of purchases every year. We want to try to get greater value for money, but also to leverage as much as possible of that £9 billion into having a greater impact by improving job prospects, investment prospects and economic growth in Scotland. I am happy to discuss that in more detail.

On European structural funds, the Government is co-ordinating its approach to the European Union through the Cabinet Secretary for Culture and External Affairs. In particular, we are doing more to join up our approach to European funding. The European Commission expects to publish tomorrow its proposals for what will happen to European structural funds after 2013. Although we do not know the detail yet, we anticipate some challenges for Scotland, but also some opportunities. Again, I am happy to go into some detail on European structural funds. Clearly, we work through partnerships with our local authority colleagues in particular to ensure that we have a co-ordinated approach to the application for and of European structural funds.

The digital network is covered by almost every Cabinet portfolio. We all have a digital dimension to our work, so the First Minister has established a Cabinet sub-committee on our digital strategy. I will chair that sub-committee and all the relevant cabinet secretaries will be on it to ensure that we have a co-ordinated approach to every aspect of our digital strategy. As the Cabinet Secretary for Infrastructure and Capital Investment, my primary involvement will be in digital infrastructure. My immediate priority is to secure a fair share of the £530 million that is being made available across the UK for investment in digital infrastructure. Indeed, I will have a telephone conversation later today with the UK secretary of state responsible for that budget, Jeremy Hunt, to open negotiations on obtaining our fair share of the funding. Again, I am happy to discuss that issue in detail with the committee.

10:15

The Convener: That has given us a broad overview. We will perhaps consider the particular headings in detail.

Adam Ingram will kick off on transport priorities.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): The cabinet secretary rightly points out the huge cuts in capital budgets that the Government faces over the next four years. That situation is coupled with a commitment to major transport projects such as the replacement Forth crossing. Audit Scotland has suggested that we might not be able to undertake the full list of capital projects that we have prioritised. Where is the scope to pursue the national transport strategy or, indeed, the 29 transport infrastructure developments that were published in the strategic transport projects review report?

Alex Neil: We will update the infrastructure investment plan in the autumn and will share the updated plan with the committee. I expect to come back to the committee and discuss that in detail once it has had sight of the updated plan. However, there is no doubt that, as with everything else, our investment ambitions for transport are very challenging. We have four priority projects that represent a substantial commitment to capital investment, particularly the Forth crossing project. Behind those, we have the other 25 priorities in the national transport strategy.

One figure that is important for the committee is that about £1 billion of the planned £2.5 billion of NPD investment, which will be delivered through the Scottish Futures Trust, is for transport projects. We recognise the pressure and the need for investment in transport. Had we the additional capital that we would normally have expected, we would have been able to do a lot more in transport. Obviously, like digital infrastructure, transport is crucial to facilitating economic growth in Scotland.

Our major strategic projects are very important, but right across the country there is a host of smaller projects—no doubt including the Maybole bypass—that deserve consideration on their own merits. We are committed in principle to doing those projects, but the issue is when we will have the money to do them. The three-year spending review is coming up and an announcement will be made on it in September. I hope then to be in a position to give you greater clarity on what we will be able to fund and when.

Adam Ingram: On reviewing the national transport strategy, obviously the strategy was created before we received the shock to the system that we have had to suffer. You highlighted in your opening remarks the importance of capital investment in general for increasing the productive capacity of the Scottish economy. That is of particular importance on the transport side because we have unfortunately inherited a situation in which we do not have a fully modernised transport infrastructure. It is ridiculous that we are talking about trying to complete the motorway network in Scotland some 50 years after we started it. Is there not an argument for reviewing the projects in the STPR in order to look at where the maximum economic impact can be gained; in particular, should we not review projects that might hamper our economic recovery?

Alex Neil: I cannot immediately think of any transport project that would actually hamper recovery, but the economic impact that projects have varies at a Scottish level or at a regional or local level.

Adam Ingram: I will give an example. We tend to have road action plans for our trunk routes, and minor improvement programmes are conducted on many of them. Over time, those add up to quite a lot of money, but they do not necessarily tackle the key blockages in the system. You mentioned the Maybole bypass. The A77 south of Ayr has had £30 million to £40 million spent on it, but we still have that key blockage in the system. Money is spent on minor improvements, but we are not tackling the fundamental issue on that road.

Alex Neil: Absolutely, and as part of the spending review I want to look at exactly those issues, to be sure that the priorities on which we are spending money—both in transport and right across the portfolios—are the ones that will make the maximum contribution to economic growth in Scotland.

My view is that we need to take a 2020 vision. I say "2020" for two reasons. First, we have to tie in transport and housing policy to our climate change targets for 2020, because those areas will make an enormous contribution to achieving the climate change targets. Housing accounts for 30 per cent of carbon emissions in Scotland. Without a substantial reduction in carbon emissions from the housing sector, we are not going to achieve our 2020 carbon emissions reduction target, and the position for transport is similar. I have therefore asked officials to set in motion taking a 2020 vision of where we would like to be in terms of Scotland's transport infrastructure in nine or 10 years' time.

The second reason why I have picked 2020 is that we can broadly divide the next nine or 10 years into two periods. The first is the period when the severe financial constraints will still be upon us. As you know, the chief economic adviser has estimated that it will take 16 years in total to get back to the level of real-terms spend that we had last year. I anticipate that the second period will come after about the middle of the decade, when we will start to see some easing in the financial constraints. At that point, the additional powers that will be opened to the Scottish Government through the Scotland Bill should also become available, so new options will open up. I would therefore like to look at our vision for the next 10 years, to 2020. If we do that, we will be able to see what the priorities are and what we can do—and the order in which we can do them—and we can have a proper investment plan that recognises that it is going to take 10 years to implement much of what we want to do.

Obviously, large projects such as the Forth crossing and the Glasgow southern hospitals mean that we have already committed a substantial sum; a significant amount of capital investment has been committed to those two projects alone. That investment is signed up to, contracted and committed, so we have to go ahead with those projects. The question is what will come after them and what will be available in terms of resources. My view is that we should always have a pipeline of projects available so that, as additional resources become available, we do not have to wait for planning permission, design and all the rest of it. We should be ready to go with shovel-ready projects, as they say in America, as and when more money becomes available.

Adam Ingram: And you have ordered that review.

Alex Neil: Yes. We have started looking at our 2020 vision. The spending review and the reviews of the transport strategy and the infrastructure investment plan will all be published round about September or October. We want to tie all of those in and to have that informed by our vision of where we need to be in 2020.

Adam Ingram: Thank you.

Jackson Carlaw (West Scotland) (Con): You referred to the Forth crossing. Since the Parliament last properly considered such matters, the tender has come in with a notional reduction of £250 million on the original cost. However, somewhat to the surprise of some, that saving will not necessarily remain in the transport portfolio—it will be put elsewhere. I suppose that I could represent that as a savage cut to that portfolio.

Before we knew the cost of the Forth crossing project, ministers' response to several projects—for example, the hard-shoulder-running pilot, which was to take place a little further north of Maybole, between junctions 1 and 4 of the M77, at a cost of £5 million—was that those projects had to be deferred or cancelled because of the Forth crossing's expected cost. As that cost is £250 million lower than was expected, would it be reasonable and sensible for some of those projects to be revived? I refer in particular to the pilot project, which was not hugely expensive and in which Stagecoach was an active partner that was willing to make a financial contribution.

Alex Neil: You raise several issues. First, the situation would be much easier if your Government was not cutting 36 per cent off our capital budget. Any assistance that you can give us to reverse that cut would be most welcome.

One reason why my portfolio was created is that we should not take the narrow departmental approach to planning our capital investment. We should look at the panoramic view of the capital investment that is required across the Government and we should invest in and prioritise projects—irrespective of the departmental portfolio in which they fall—that will provide the maximum economic and social benefit to the people of Scotland nationally, regionally or locally.

You make the fair point that part of our consideration must be the leverage that we can get from third parties. You mentioned a project with the potential for leverage from the private sector. If we can get leverage from the private sector for a relatively small amount of public sector money, that must be part of our consideration of the prioritisation of projects and the total investment programme.

I will not commit myself today to any new projects or programmes—I am sorry to disappoint you. When we publish our plans in the autumn, we will give not just a vision but detailed and specific commitments on what we can do, particularly in the first half of the 10-year period.

The Convener: We move on to high-speed rail, on which Jamie Hepburn has questions.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I thank the cabinet secretary for his remarks, which will help to inform the committee's future work. We will find out in the autumn not only what the published details are but whether Jackson Carlaw will be better placed to help the cabinet secretary to lobby Tory high command—I suppose that that is a matter for Jackson Carlaw and the Conservative Party.

I will stick with the transport part of the portfolio and focus on high-speed rail, as the convener said. We have heard from the UK Government about its plans for what it calls a UK project, but we know that it envisages high-speed rail going only to the midlands in the short term and only as far as Lancashire and Yorkshire even in the longer term. Is the Scottish Government's position still that high-speed rail should come to Scotland? What engagement have you had with the UK Government on the matter?

Alex Neil: We consult our colleagues in the UK Government continually. I hope to see Philip Hammond during the recess, in July, when high-speed rail will be one item that is high on my agenda. It is nonsense that the high-speed rail link from London is not to come all the way to Scotland. Our economic analysis shows that the economic benefit to the UK and to Scotland of investing in the Scottish end would be greater than the economic benefit of investing in the line between London and Birmingham. I am happy to share that analysis with the committee; I believe that Keith Brown has shared it with our colleagues down south.

Our strong view is that it is discriminatory and unfair and is not sensible for the link to go just to the midlands. A commitment should be made to have in a reasonable timeframe a high-speed rail link between Scotland and London. To be frank, the UK Government's decision is absolutely crazy.

Jamie Hepburn: A copy of that analysis on the wider economic benefit would be useful for the committee. We look forward to seeing that.

There was an announcement last week that the Government has set up a steering group to consider the issue. Will you set out the membership of that group and its role and objectives?

10:30

Alex Neil: We have still to finalise the names and arrangements but I am more than happy to write to the committee within the next week or so, once we have finalised the details.

Neil Findlay (Lothian) (Lab): My question is not on the high-speed rail link but on improving speed on rail in general. Will you comment on the continued campaign for the electrification of the Glasgow Central to Edinburgh line? We can criticise the situation from London up, but what are we doing in Scotland to improve train times?

Alex Neil: Keith Brown, the Minister for Housing and Transport, announced last week the timetable for the electrification of the line from Glasgow to Edinburgh by 2016. We are extremely committed to that because transport and other connectivity between our two major cities—between all our cities—is extremely important. We are committed to achieving a high-speed rail link between Glasgow and Edinburgh by 2016.

Neil Findlay: Yes, but I am specifically asking about the Glasgow Central line, not the Queen Street line.

Alex Neil: I will let David Middleton answer on the detail of that.

David Middleton (Transport Scotland): The main proposals on electrification have always been on the improvement in the journey time from Queen Street to Waverley. However, we have had a considerable programme of rail improvements throughout central Scotland, with timetable improvements on the Shotts line and the Airdrie to Bathgate line. Our track record on improving rail connectivity throughout central Scotland is pretty good. I know that you did not specifically raise the issue of the Paisley corridor improvements, but those are going ahead out of Glasgow Central.

As the cabinet secretary said, we are open to examining our priorities. We have had an ambitious rail programme in Scotland and if we need to consider where the best improvements can be made to enhance connectivity, we will do so.

The Convener: As an MSP from the north-east of Scotland, I would like high-speed rail all the way to Aberdeen and Inverness. The first priority, however, is Edinburgh and Glasgow. One reason for that is not only to reduce the number of flights and therefore carbon emissions, but to free up slots at Heathrow for flights from Aberdeen, which will happen if there is less need for flights from Edinburgh and Glasgow. That is a real issue, because if there is competition for flight slots, particularly at Heathrow, Aberdeen flights tend to fall off the end. Does the cabinet secretary have any thoughts on that?

Alex Neil: We are talking to our colleagues down south about slots at Heathrow. It is not just an issue for Aberdeen and Inverness; there is a general issue at Gatwick and Heathrow. The ideal solution would be to have more of a hub in Scotland, so that people do not always have to fly through Gatwick or Heathrow to get to other continents. However, we are very aware of the matter and we are continually talking to BAA and to Philip Hammond's department about the need to ensure that sufficient slots remain open at Heathrow and Gatwick for flights from Scotland.

The Convener: I am sure that the cabinet secretary will join me in welcoming the Aberdeen to Frankfurt flights that were announced this week.

Alex Neil: Absolutely.

The Convener: Gordon MacDonald has a question about the Edinburgh trams.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Before I ask my question, I declare an interest in the matter, as per the register of members' interests.

Cabinet secretary, you will be aware that the City of Edinburgh Council is considering the options that are available to it for the tram project. Will you explain the Scottish Government's position in relation to the on-going saga of the trams, bearing it in mind that the trams should have been running by summer this year? Is it the Government's intention to get Transport Scotland more closely involved in the management of the project?

Alex Neil: As you know, the Scottish Government believes that this should not have been a high priority in the first place. We voted against it but were overruled by the other parties in the Parliament—regrettably, I think, because that £500 million could have been better spent either in Edinburgh or elsewhere.

However, we are where we are. The project is primarily the responsibility of the City of Edinburgh Council and, until now, TIE. The Scottish Government has not been directly involved in the project and has not received any request to take it over, either directly or through Transport Scotland.

We have made it absolutely clear that we do not have any additional money to invest in the tram project. Five hundred million pounds of Scottish Government money has already been allocated and we just do not have any more money to put in, even if we wanted to—which I am not so sure about. It is now up to the City of Edinburgh Council, in particular, to get its act together and to make a decision about the way forward.

As I understand it, the council will be discussing a number of options at tomorrow's council meeting and it seems to me that it needs to have a very well worked out plan, with the finances underpinned with proper research and reliable figures. In other words, it must base any decision about which option to take on reliable information that can be trusted to be as near correct as it is possible to be in these circumstances.

Gordon MacDonald: You said that no more money will be coming from the Scottish Government. What other options are available to the City of Edinburgh Council if it decides to complete the project?

Alex Neil: As the papers that have been circulated for tomorrow's council meeting indicate, options are to take the trams as far as Haymarket or, indeed, York Place. I understand from the papers that the additional money required to take the line from Haymarket to York Place is estimated at £70 million, but you have to consider the benefits as well as the costs.

There are a number of clear options, which boil down to mothballing the project, complete cancellation, or taking the line either to Haymarket or York Place. There is no longer an option to take the trams to Leith because no one has the money to do it. It is up to the council to decide which option to choose. We have expressed no preference, but we think that the project has been very badly managed up to now and hope that the council will get its act together and execute whatever decision it takes as efficiently and as quickly as possible.

Jackson Carlaw: I agree with your assessment that we are where we are with the project and share much of your view about the project's management. As you say, the council is about to meet but, notwithstanding your earlier remarks, sources within it have suggested that conversations have taken place and that additional funding might be forthcoming from the Scottish Government. I would have thought that to be extremely unlikely, although I felt that the language that you used in response to the earlier question, when you said that you were not sure whether it was what you would want to do or whether you were minded to do it, to be slightly qualified. I am sure that that was not your intention, but it would be helpful if, ahead of that meeting, you were to make it unequivocally clear that the Government has no intention of providing any additional funding for the project. It will ensure that this particular decision is taken without any room for doubt over the Government's position on additional funding.

Alex Neil: My understanding is that there is a funding gap. There is no way that the Scottish Government can give the City of Edinburgh Council the capital to fill all or any part of that gap. We simply do not have the money. We have just been talking about all our other priorities and how we are having to manage our money and projects very prudently, which is what we are doing. We do not have any spare capital to put into the tram project.

The Convener: Jamie Hepburn has a brief question about the Borders railway.

Jamie Hepburn: I should declare that I will ask the question for my wife's family, who are from the Borders.

There has been a lot of discussion about the future of the Borders railway. The cabinet secretary will be aware of that. Indeed, I think that we are all aware of it. During First Minister's question time two weeks ago, the First Minister was entirely unequivocal. He said:

> "The Borders railway will go ahead."—[*Official Report*, 16 June, 2011; c 774.]

I believe that that has to be the case, given the nature of the contract. Will you give us a wee update on progress on that project, including on its contract and costings?

Alex Neil: Absolutely. Christine Grahame's question to the First Minister arose because one of the two consortia that were still in the bidding process for the project withdrew, so we have one bidder left.

I will make two points. First, we are totally and unequivocally committed to the Borders railway project and there is no question but that we will move ahead with it as planned.

Secondly, we now have to decide whether to proceed with one bidder or look at other options. We are considering that. Obviously, a degree of commercial confidentiality relates to that decision, but we will announce it to the Parliament when we are in a position to do so. We will not procrastinate. We certainly intend to see the project through and we intend to complete it within the timeframe that we set.

The Convener: Does any other member have any questions about transport matters before we move on to other things?

Adam Ingram: I want to ask about roads maintenance. Audit Scotland, among others, has criticised what it referred to as a deterioration in Scotland's roads over the past decade or so. In a recent report, the Institution of Civil Engineers suggested that the Scottish Government and local authorities should prioritise roads maintenance and

> "Increase immediately funding for roads maintenance to arrest further deterioration."

It claimed that,

> "Without this, economic growth will be seriously impaired."

I understand that the Government has established a review of the condition of Scotland's road network—I think that that review was announced earlier this year. Are any findings emerging from it? How does the Government decide on the balance between expenditure on new trunk road infrastructure and maintenance of the existing infrastructure?

Alex Neil: Obviously, the harsh weather conditions during the previous winter particularly highlighted that matter. If we do not spend sufficient money on roads maintenance, we will be cutting off our nose to spite our face. If the condition of our roads is not dealt with on an on-going basis and it deteriorates, we will end up spending more capital to try to rectify it, so I say right away that we recognise the importance of earmarking a sufficient amount of money for roads maintenance. It is an important factor, and it will be an important factor in our consideration of the transport budget during the spending review.

There will be a report on the review to which Adam Ingram referred in the autumn. I have no details to report today, as the work is on-going, but the findings from the review will obviously inform how much we spend on roads maintenance and where and when we will spend it. I totally recognise the critical importance of having a sufficient roads maintenance budget. There is no point in our spending all the additional money on new trunk roads if they and the existing network are not properly maintained. As I said, doing that would be cutting off our nose to spite our face.

Jackson Carlaw: At the weekend, I saw a commentary by the First Minister on the potential use of additional borrowing powers to invest significantly in the road network. The 32 local authorities are independently responsible for the maintenance of local authority-controlled roads and their own budgets. How can you put in place a mechanism that will allow any additional funding that you want to make available for road maintenance to be spent on road maintenance?

10:45

Alex Neil: The Scottish Government is responsible for the trunk road network, so, when I talked about maintenance, I was referring to our priorities. We have regular discussions with the local authorities about their investment in their road network, including maintenance issues. As you rightly say, each local authority has to decide, based on the resources available to it, which roads they invest in maintaining or upgrading and how they prioritise that. Those are decisions for local authorities.

However, those decisions are not made in isolation. We talk to local authorities regularly about, for example, access to trunk roads. Every local authority that I have ever spoken to is keen to ensure good access from its area on to the trunk road network. Often, those access roads are local authority roads, so it follows that if we are to do our part, they need to do their part.

Where we can, we take a partnership approach but, ultimately, local authorities are responsible for deciding which roads they spend their money on.

The Convener: The Government has asked for the devolution of the ability to raise airport passenger duty. Why have we asked for that particular tax-raising power?

Alex Neil: We would like the devolution of all tax-raising powers but, being pragmatic, we suggested several reasons why that would be an obvious one to devolve under the Scotland Bill. First, it would be an easy tax to devolve because, by definition, its administration is based on journeys from airports, which is a fairly easy thing to determine. Secondly, we want responsibility for airport passenger duty because we have a different set-up in Scotland. For example, the importance of airlines to the lifeline of the Highlands and Islands is an example of where the interplay between air transport and other transport is particularly necessary. Devolution of that power would allow us to vary or decide on different rules for the application of the passenger duty to reflect Scotland's particular needs.

The Convener: We now move on to housing and, in particular, affordable housing investment.

Neil Findlay: In your opinion, cabinet secretary, what is social housing for?

Alex Neil: Social housing is for those people who want or need to rent, either because they cannot afford or do not want to buy, or because they prefer to live in a particular location and that is the only available housing. I do not accept the philosophy that is emanating from the Government down south that it should be for a restricted group of people at the lower end of the income scale. One of the important things about a civilised society is that we have mixed-tenure communities, and I do not think that we would have that if we restricted access to social housing to people who are below a certain income level.

Neil Findlay: Is it to serve people's needs, or to sustain a community, or to serve the economy? What is social housing's purpose?

Alex Neil: It is all those things. Within the gamut of Government policy, we cannot have a successful health policy without a successful housing policy. For example, if older people or children are living in damp conditions, that will have a knock-on effect on the health service. Similarly, a child who is living in an overcrowded home will not perform as well at school as he or she could do if they were living in a spacious house. Housing is very important for employment, not just when we are building or renovating houses, but in terms of providing housing where people need to live to get work.

Social housing fulfils a range of functions. As I said earlier, it is also an important contributor to the achievement of our carbon emissions targets.

Neil Findlay: Various elements of housing are important. One of those is the numbers game, with reference to how many social housing units we have, the waiting lists and so on. I have spoken to a number of senior housing professionals over the last while who point to the lack of budget certainty as a major problem for their planning. They cannot drive a commercial bargain with their development partners because they do not know what their funding will be in one, two, three, four or 10 years' time. How do you intend to overcome that difficulty and give them certainty so that they can make plans and drive a commercial bargain to increase the number of units that are built?

Alex Neil: I share their concern. That is one of the reasons why we pressed Gordon Brown and Alistair Darling not to abandon the three-year spending review. However, they did abandon it, which created uncertainty for us: not having three-year commitments from the UK, we could not make three-year commitments. We got commitments only last year and are now moving into a three-year spending review, the results of which John Swinney will announce in September. That will allow us to inform our partners in the housing sector what housing budgets will be for the next three years. I recognise the importance of having a pipeline of work and of being able to take advantage, particularly at the moment, of relatively low construction costs compared with a few years ago. We are working with the housing sector to try to ensure that, based on our decisions in the spending review, we get the pipeline agreed.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): I will stick with the theme of social rented housing—your manifesto had a commitment to 6,000 a year. Can you clarify whether that refers to social rented housing or to affordable housing more generally?

Alex Neil: We had two numerical commitments on housing in the manifesto. One was that over the five-year period we would build 5,000 new council houses, which we intend to do. The second was that we would build over 6,000 affordable homes each year, which we intend to do. The vast bulk of the affordable homes will be social rented houses, but they will also include the shared equity products that are on offer, which are targeted at lower income people and have a beneficial effect on waiting lists.

Our research has shown that a high proportion—well over 50 per cent—of people who take up the low-cost initiative for first-time buyers programme are either people on the waiting list who come off it as a result of going on the LIFT programme, or people living in social rented houses who move out, making the house available for another family on the waiting list. Everybody is therefore a winner: the family who want to own their own home and use the LIFT scheme to do so win; and other people on the waiting list win because they get a house more quickly: they move up the waiting list as people on the LIFT scheme move off the list.

Malcolm Chisholm: That is all right in theory, but when you have so many thousands—

Alex Neil: It is not just theory; it is fact.

Malcolm Chisholm: Yes, but when you have so many thousands on the waiting list, as in Edinburgh, the people getting LIFT houses would never have got a social rented house anyway.

I was glad to hear you say that the vast bulk of the 6,000 affordable homes would be social rented houses. However, I have spoken to housing people in Edinburgh whose general view is that, because most of this year's money is going to pay for commitments that have already been made and very little of it is for new build, combined with the lower housing association grant level for a social rented house, new developments will now have to be more or less 50:50 between social rented and mid-market rented houses. In fact, one housing association director told me this week that his view is that they will not be able to build any social rented housing at all in two or three years' time because they will have such high borrowing levels as a result of the reduced HAG. Are you concerned that, although you wish the vast majority of the 6,000 homes each year to be social rented homes, that might not be financially possible for housing associations?

Alex Neil: No. We have had to change the way in which we are funding housing as a direct result of the 36 per cent reduction in capital grant made by Alistair Darling and Gordon Brown and endorsed by George Osborne. We have to try to maximise the number of houses that we are able to build for the money that is available to us.

Building more than 6,000 new affordable houses is much higher than the average figure in the first five or six years of the Scottish Parliament—if I may say so, it is much higher than the figure when you were the responsible minister, Malcolm.

Since I became the housing minister two and a half years ago, people have been telling me that if we did not keep the HAG at £70,000 per unit, house building by the housing associations would collapse. It did not collapse; in fact, the numbers last year were record numbers.

I want to explode a couple more myths. First, Shelter's estimate that we can build only 1,500 new houses for rent every year is just not accurate—it is not correct at all. Secondly, the people who say that the HAG is up to £40,000 per unit are not correct either; what we have said is that the benchmark is £40,000, but we recognise that, particularly in remote rural areas or in island areas, the HAG would need to be higher than £40,000. The benchmark is £40,000—it is not the maximum. Based on all that, our anticipation is that, with the budget currently available, we will be able to build more than 6,000 new affordable houses every year.

I will talk about the definition of affordable. One of the things that I have been saying since I became the housing minister two and a half years ago is that some of the terminology that is used is very misleading. For example, the term “mid-market rent” suggested to me, until I researched the issue, that it was rent above the housing benefit level. In fact, mid-market rent is equivalent to between 85 and 90 per cent of the housing benefit level for rent. So mid-market does not mean yuppie housing for people who are earning hundreds of thousands of pounds; it is well within the limits of housing benefit.

Malcolm Chisholm: There is a lot to respond to there. As you know, I am not a partisan politician, but I cannot let you get away with what you said about the numbers. I think that you will find that between 2005 and 2008 more than 6,000 homes were built.

My main point, however, is about not the numbers, but the composition. I am going by conversations that I have had with people on the ground—some points were made at the reception that housing associations held last night. I think it is true to say that the balance will change. You spoke favourably about mid-market rent. I think it is incontrovertible, certainly in Edinburgh, that the proportion of social rented homes will be lower than it has been in the past. That is not to say that we do not need mid-market rent in Edinburgh, but I am concerned about the number of people in Edinburgh who require social rented housing and cannot afford either LIFT or mid-market rent.

Given that the target date for meeting the 2012 homelessness obligations is just a few months away, I am particularly concerned about how councils will meet the obligations if a declining number of social rented houses are being built.

Alex Neil: Our aim remains to achieve the homelessness target by 2012 but, obviously, the reforms to housing benefit, which are very regressive, are making life much more difficult for everybody. Some of the reforms really are quite inhumane. For example, the reform to the shared living allowance element of housing benefit, which raises the maximum age from 25 to 35, will have a detrimental impact on people, particularly vulnerable people who are suffering from an addiction or mental health problems. If they are forced to share, that could be very detrimental.

The rules coming in in 2013, whereby housing benefit will be cut for people in underoccupied accommodation, are a very retrograde step. For example, a pensioner who is on housing benefit could have lived in the same three or four bedroom house for 30, 40 or 50 years and raised their family there but, in 2013, the Department for Work and Pensions can come along and say, “You are living in an underoccupied house, so we’re going to cut your benefit,” and force them to move out of not just the house, but the community. That is very inhumane. We have been on at ministers about that, although we have not been consulted on it. Housing is a devolved responsibility, but at no time have we been consulted on the housing benefit reforms. Had we been consulted, we would have advised strongly against those particular reforms.

11:00

Malcolm Chisholm: I agree with you on housing benefit.

I have one more question on housing. You have mentioned today and in the past the possibility of using pension fund capital, which certainly seems a good idea in principle. Is the attraction of that simply that traditional forms of private finance might become more difficult for housing associations to access, or do you envisage positive advantages because of the deals that housing associations might be able to get from pension funds, directly or indirectly?

Alex Neil: Actually, it is both. Since the crash, the way in which the banks have dealt with housing associations has been similar to the way in which they have dealt with people who are looking for a mortgage. Housing associations have faced particular problems, even if they have had a credit line or an agreed loan amount that they had not taken up yet: if they go back to the bank to change it in any way whatever—just to stroke a t or dot an i—the bank wants to reopen the entire deal and charge much greater fees for arrangement and all the rest of it. The banks have not played ball with the housing associations. In Scotland, where, frankly, we do not have anything like enough competition in the banking sector, that has been a particular problem.

We need to open up new avenues of private sector funding, including institutional funding for housing associations and for individuals through increased banking competition. I welcome new players such as Tesco finance coming into the market, because, frankly, the ones who currently hold a monopoly have had it too much their own way, which has been to the detriment of individuals who are looking for a mortgage and of housing associations that want to finance their projects.

Jamie Hepburn: I accept what Malcolm Chisholm said about pressure on waiting lists in Edinburgh, but of course that circumstance is not unique to Edinburgh, as there is pressure across Scotland. For example, there is an issue in the new towns in Scotland, one of which I represent. Given that, how will it be decided where the 6,000 new homes per year will be built?

Alex Neil: The short answer is that it will be across Scotland. As you know, we are funding council houses as well as housing association houses. Six councils have transferred their stock and therefore will not be building. The other 26 local authorities will be, and I think that there have been applications to the innovation and investment fund for funding for housing from 23 local authority areas, including North Lanarkshire. When housing associations from the six areas where the stock has been transferred apply, one factor that we are conscious of is that the councils in those areas are not in a position to build, so the only new build in the social rented sector will be from housing associations. We are trying to ensure that we respond.

As you know, all decisions on the funding that we give are guided by the individual local authority's local housing strategy and housing investment programme. We do not make decisions out of thin air. To get money from us for social housing, one condition is that housing associations and councils have to show that the particular development for which they have applied fits with their local housing strategy.

Jamie Hepburn: I am sure that we are both glad that North Lanarkshire Council is one of the councils that have applied. We have talked a lot about the social rented sector and the affordable homes agenda, but will you update us on house building in the private sector right now? I declare an interest, as someone who lives in a largely private development that is being built very slowly.

Alex Neil: I have good news on that front because, today, Keith Brown, the Minister for Housing and Transport, is announcing a brand-new initiative—well ahead of anyone else in the United Kingdom—for a mortgage indemnity guarantee. That should be of particular benefit to first-time buyers, although not only first-time buyers. The money will help to fund Homes for Scotland and its member companies—the developers that build 95 per cent of new houses in Scotland—to set up a mortgage indemnity guarantee fund to help people to get access to a mortgage by providing a mortgage indemnity guarantee. A similar proposal was in Labour's manifesto—I think that it was probably pinched from our document in January—but we have announced it today. I hope that it will help to stimulate the private housing market, initially on a modest scale.

It is in all our interests to stimulate particularly but not only the first-time buyer market. I say that for a number of reasons. First, a number of first-time buyers are also on the housing waiting list but would prefer to buy. If they are in a position to buy and get a mortgage, that reduces the waiting list and helps the people who are left on it.

Secondly, before the crash, about one eighth of all the social houses that were built in Scotland were built as a result of section 75 agreements with private sector developers. That has pretty well dried up in the past four or five years because of the crash, so we have had to try to make that proportion up by other means.

Whether one is renting, on the waiting list or an aspiring home owner, it is to everybody's benefit to try to get the private sector market moving. Again, I appeal to the banks to do much more, particularly for first-time buyers. They ain't doing anything like what they should be doing to help first-time buyers because, although the interest rates appear to be low, when we add in all the other belts and braces that the banks require, such as arrangement fees, it can cost a fortune just to arrange a mortgage.

Our mortgage indemnity guarantee, which we have developed in consultation with industry stakeholders, marks a stepping stone towards trying to do as much as we can within the powers and resources that are available to us to help the private sector developer market. We do not know yet whether Cumbernauld will be a beneficiary.

Jamie Hepburn: I hope so.

Neil Findlay: I am sure that it was a slip of the tongue, Mr Neil, but you apparently said that the answer to the banking and lending crisis was more competition. I am sure that you did not mean to say that.

Alex Neil: Part of it is more competition in Scotland because there is a huge monopoly in the banking sector here. Monopoly is not good for the individual or for housing associations. There is a monopoly problem in Scotland. I did not make a slip of the tongue; I meant it. We need more competition and more players who can force the existing monopoly holders to give a better deal to first-time buyers and the like.

Neil Findlay: The way that some of the banks lent to people on low incomes and the competition that they were in with one another was part of the problem. We may come back to that in future.

I am a member of West Lothian Council. Irrespective of which party has run that administration over the years, it has been a high-performing local authority—indeed, it has been one of the best in the country. It has built a number of council houses in recent years that had been planned by both parties for some time—it is not a party-political issue. The council had one of the lowest housing debt levels in the country but, now that it has built, it has one of the highest and is probably reaching saturation point and the point at which it cannot finance any further new build. What happens when it hits that level?

Alex Neil: A number of authorities, such as Renfrewshire Council, have already done so. The result is that they are not in a position to borrow because, under the prudential borrowing rules, which the Treasury decides, they are not allowed to borrow any money once they hit their ceiling. The situation has been exacerbated since last year's 1 per cent increase in the interest that the Public Works Loan Board charges. Authorities such as Renfrewshire Council have been entirely dependent on the housing association sector for new-build social housing, because they do not have the money to build.

Neil Findlay: So that is it.

Alex Neil: Under the Treasury rules under Alistair Darling and now George Osborne, that is it. Such authorities are not allowed to borrow any more. We do not make the rules. That is one of the reasons why I want responsibility for such matters to be devolved to Scotland. If that were to happen, we would be in an entirely different position.

The Convener: Just before we wrap up on housing, you talked about meeting the 2012 homelessness target, but where are we on the target of meeting the social housing quality standard by 2015?

Alex Neil: Overall, roughly 45 per cent of housing association and council stock has already reached the standard, and there is a pipeline of about £2 billion-worth of investment to bring the balance up to the standard by 2015.

As you know, in "Homes Fit for the 21st Century" we envisaged a new standard for 2020, because it is some years since the standard for 2015 was set—in fact, I think that it was Mr Chisholm who set it originally. Our belief is that we need to raise the standard to take account of climate change targets and other such factors that were not an issue when the standard was first set.

There is quite a difference between the performance of the council sector and that of the housing association sector. Aidan Grisewood will correct me if I am wrong, but I think that well over 50 per cent of the housing association sector's stock has already achieved the standard so, by definition, the rate in the council sector is nearer 40 per cent. Overall, achievement of the target is running at roughly 45 per cent.

The Convener: Do you think that the target will be met?

Alex Neil: I think that it will be, because it is funded through the housing revenue accounts. A few authorities that we have talked to might have had difficulty, but we think that we have managed to agree with them a programme that will allow them to reach the target by 2015.

I will not name names, but there has been, in the earlier years, in particular, some misunderstanding of the standard on the part of one or two councils. They were gold-plating what is a minimum standard. Because they were doing that with houses that were involved in the early part of the programme, they were in danger of running out of money before they completed the programme. The standard is a minimum standard for every house in the council and housing association sector; it is not about gold-plating the standard for just some of those houses.

The Convener: Are there any other developments in housing policy that the Government foresees taking forward in this session?

Alex Neil: Absolutely. We intend to introduce a range of proposals from "Homes Fit for the 21st Century", which is our strategy on housing in Scotland for the next 10 years. Fairly soon, we will announce the outcome of the application process for the investment and innovation fund. The innovation part of that fund, which is worth £10 million, is oversubscribed by a factor of five, so there is a great deal of interest in it. The other part of it—the part for councils and housing associations—is oversubscribed by a factor of three, on average.

In addition, I intend—not this legislative year, but probably in year 2—to introduce a housing bill, as there are quite a number of issues outstanding from the last session. One example is that we need to modernise the legislative framework for mobile homes. As you know, in "Homes Fit for the 21st Century" we made a number of commitments, including further reform of the right to buy, which will require additional legislation. Rather than have one bill this year, another bill next year and another one the year after, I am planning to have a comprehensive consolidating housing bill to introduce the reforms that we promised in "Homes Fit for the 21st Century" and to deal with those outstanding issues that require to be dealt with. We will consult key stakeholders to ensure that we include all the issues that need to be included in the bill before we go out to consultation on individual issues. That will enable us to cover all the legislative requirements that we anticipate for the next four or five years.

11:15

The Convener: I am sure that the committee is looking forward to getting a consolidated housing bill.

Malcolm Chisholm: We have touched on fuel poverty already, and you have already said something about it. There are three legislative commitments: on homelessness; on the quality standard; and on fuel poverty, which has to be abolished, as far as is reasonably practicable, by 2016. You kindly answered a question from me about that yesterday but, unfortunately, you did not say anything about what that means. I accept that you cannot control it all because of prices and income, and I understand all the financial constraints, such as the reduction from £60 million to £48 million this year for the energy assistance package, for example. Is that consistent with your legislative obligations?

Alex Neil: Compared with what has happened down south, where the budgets have been decimated, we have done very well to protect the fuel poverty programme budget, despite the overall cut of 36 per cent in our capital budget over the next four years. There are two main programmes. We will spend about £33 million this year on the energy assistance package, and £15 million on the universal home insulation programme. That will make the total spend about £48 million. For the next two years, we will have what is left of the CERT programme, which is the power companies' investment in insulation and related investment. That will be superseded by the new green deal measures. To be fair, Chris Huhne has been very co-operative with us over the content of the Energy Bill that is going through the UK Parliament. We anticipate and will be trying to ensure that we maximise the take-up in Scotland of all aspects of the Energy Bill and the green deal.

Malcolm Chisholm: You said that a third of households in Scotland are now living in fuel poverty. Do you have any breakdown of that by kind of home, such as private rented or—

Alex Neil: I am happy to send you all the statistical information that we have. I will circulate the analysis to the committee.

Malcolm Chisholm: It is quite important to know whom we have to target. It is also related to the quality standard target for 2015. You also mentioned the climate change targets for 2020, which will require further big increases in standards across the housing sector. To what extent have you worked up plans for that?

Alex Neil: The climate change delivery plan identifies the action that needs to be taken in housing as well as in all other areas. Obviously, there are options. In Germany, for example, people are not allowed to sell a house if it does not meet a specific standard. That is an option that we have here, should we make that kind of legislative provision. Those are the kind of issues on which we will consult further.

Malcolm Chisholm: Are you thinking of action in the private rented sector? Quite a lot of problems exist there.

Alex Neil: As you know, there are about 233,000 properties in the private rented sector, which represents 8 per cent of the total housing stock. Of those, 75 per cent are owned by a landlord who has only one property, but the average number of properties is seven. The evidence suggests that, of the four sectors—owner-occupied, housing association, council and private rented—the private rented sector is the furthest behind with investment in insulation and energy assistance measures. We have made a start with addressing that. Earlier this year, we made money available for boiler scrappage in the private rented sector because many homes have boilers that are well out of date, very inefficient and not working properly.

We are working through the private rented sector strategy group, which is looking at preparing a longer-term development strategy for the private rented sector in Scotland and what we need to do to improve the standards of insulation and the like. I agree that the private rented sector is an issue that needs to be addressed.

The Convener: If no one has any more questions on that issue, we will move on to Scottish Water.

Neil Findlay: What are the Government's proposals for Scottish Water funding after the current regulatory period?

Alex Neil: As you know, the Scottish Government made a commitment of £700 million over the period up to 2015. About £540 million of that is outstanding, so funding will run at just over £100 million a year.

We will come forward with proposals and discussion on what we do after 2015. You probably know that a new chairman of the Water Industry Commission for Scotland has just been appointed to replace Sir Ian Byatt. Once he has his feet under the table, we will come forward—probably early next year—with the post-2015 regime. Is that right, Kirstin?

Kirstin Baker (Scottish Government): That is right—it is not for a while.

Alex Neil: But, obviously, the current regime is in place until 2015.

Neil Findlay: At the moment, funding is approximately 85 per cent from user charges and 15 per cent from Scottish Government loans—I think that those figures are correct. If the Scottish Government does not provide Scottish Water with loans, investment will decrease, charges will go up or funds will have to be sought from external sources. Has the Scottish Government considered which of those options is most likely should you not continue with the current set-up?

Alex Neil: I agree with the underlying assumption in your question. It is very unusual in any business model, in either the public or the private sector, to fund a capital programme through such a high level of revenue. Bodies tend to borrow a much higher proportion for capital investment and pay it back over 25 to 30 years. That is particularly the case for water resources: the product life cycle of water resources is well over 100 years, particularly with modern technology.

I therefore fundamentally agree with your underlying point that it would be wiser to allow Scottish Water to borrow the money in the marketplace, instead of our having to take money out of our capital programme every year to lend to it—money that could be spent on housing, roads or railways. We have made a proposal to the Treasury exactly along those lines, and we await the response from the Chancellor of the Exchequer. I believe that he is giving it serious and detailed consideration. If he allows Scottish Water to raise money in the market for investment, that will be the best solution.

Neil Findlay: You assume a lot from my question that may not be correct.

If Scottish Water is allowed to borrow externally, will that not necessitate a change in its governance?

Alex Neil: No, I do not see why it would. There are loads of examples of organisations that are run at arm’s length from Government and which borrow from non-governmental sources.

If you are asking me whether we are going to privatise Scottish Water, I can say absolutely not. There is no way that we are going to privatise Scottish Water, for a whole host of reasons, so let me categorically state the Government’s policy: it remains for the next five years no to the privatisation of Scottish Water. However, there are other ways in which it could raise money for capital investment while operating within the public sector, if the Treasury allows us the flexibility.

That is why we want such decisions to be made in Scotland. If we had the power in Scotland to do that, we would have already done it, but we are in the position of having to lobby the UK Treasury and to wait for it to give us permission on how we want to run our own Scottish Water.

Neil Findlay: Thank you for being straight with us on your commitment.

Do you consider that the formation of a public interest company would constitute a form of privatisation?

Alex Neil: That would depend on how it was done. Network Rail is an obvious example of a public interest company that has the ability to borrow, although it still has to do that under the general direction of the Treasury—it does not have total freedom in the way that a commercial company would. Our preference is for Scottish Water to remain firmly under the ownership and control of the Scottish Government.

Neil Findlay: But you are not ruling out the public interest company route.

Alex Neil: We have absolutely no plans to go down that route and, frankly, I do not foresee any circumstances in which we would do that.

The Convener: There are no further questions on Scottish Water, so we move to capital investment. What plans—if any—does the Government have to update the 2008 infrastructure investment plan?

Alex Neil: As I said earlier, that plan was drawn up before the current deep-seated financial squeeze that we are getting from London. We are updating the plan and will publish the new infrastructure investment plan in the autumn.

The Convener: Sorry. I thought that that related just to transport, but you are talking about infrastructure in general.

Alex Neil: Absolutely.

The Convener: Given that there are so many bodies involved, such as universities and local authorities, how are we going to reach agreement on prioritisation of the capital infrastructure projects? What criteria will be used in deciding which projects will go ahead? Every body will think that its particular item of capital investment is important, but you must take an overall strategic view.

Alex Neil: For the purpose of the debate, let me divide the projects simplistically. There are projects—the Forth replacement crossing is an obvious example—that we are committed to. In some cases, the contracts have already been signed. We cannot reopen those projects; they must remain commitments. Then, as more money becomes available, after Jackson Carlaw has completed a successful lobbying exercise for us, we will want a pipeline of projects to be ready for investment. It is my strong view that, although it has been operating to an extent, we must update the model that we use to decide what we give priority to.

Manchester City Council has developed a model for doing exactly that, in which job creation, investment, economic growth, fairness and equality are all criteria against which projects are weighted. Prior to the introduction of that model, the council had two tram projects that it was going to initiate. However, as a result of the model being introduced, one of those tram projects went to the top of the list and the other tram project went to the very bottom of the list. Would that that had been the case in Edinburgh as well as in Manchester.

The point is that we need a systematic, methodical and logical approach to deciding what our investment priorities should be. I will look at the Manchester model to see whether we can learn lessons from it. Kirstin Baker is taking responsibility for helping us to develop such a model so that, in the future, as money becomes available, we can take decisions across the board about whether to spend money on housing or on roads, where the greatest benefit is and how we should prioritise investment. We need a logical way of deciding those matters. Once we agree a model of investment criteria and how to determine our priorities, which will be based on advice from the infrastructure investment board, we will be happy to share that information with you.

The Convener: Can you enlighten us as to what role the Scottish Futures Trust will have in all that?

11:30

Alex Neil: It will play a very major role. I hope that the committee has seen a copy of the benefits statement that the Scottish Futures Trust published yesterday, showing a 16 per cent increase in its benefits from last year. It has identified as a direct result of its work this year £129 million-worth of benefits, including efficiency savings, which will accrue to the public sector.

The Scottish Futures Trust's very substantial portfolio of work includes the hub programme—in Edinburgh, in particular, a number of hubs are nearly ready for opening—and the national housing trust initiative that I referred to earlier, which will result in 700 new houses. We hope to have future rounds of the initiative not just with councils but with housing associations and others. The trust will also take forward the NPD programme, which amounts to £2.8 billion of investment in transport, health and education, and is engaged in other activities, including asset management. Indeed, I expect in the next few weeks to receive a report from the trust on improving asset management in the public sector. In the current environment, we must use every management tool available, including improved asset management, to ensure that we squeeze as much out of our assets as we possibly can and churn them for reinvestment.

The Convener: Are you confident that the university sector, health boards and other such organisations have bought into all that?

Alex Neil: Broadly speaking, yes. There might be a few individuals who dissent but, broadly speaking, I think that people recognise that in the current environment this is the best game in town. Indeed, even if we were not in this environment, the Scottish Futures Trust's work would still be very worth while. Even in the eyes of the new Government down south, which is obviously very pro private sector, the private finance initiative model employed by Gordon Brown and Alistair Darling has been totally discredited. It has left the country with an enormous debt that did not actually appear on the official national debt figures and, quite frankly, I know of no one either north or south of the border who wants to return to those days.

Jamie Hepburn: That brings us to other methods of funding investment in infrastructure. Are you able to give us an update on the progress of the NPD projects that are listed in this year's budget and on any future plans for using that model?

Alex Neil: As you know, John Swinney announced a £2.8 billion NPD programme, managed by the Scottish Futures Trust, which will cover transport, health and education. Transport will account for about £1 billion of that investment, with the balance split between health and education; that money covers projects such as the Borders railway, which was asked about earlier. In education, we are considering a number of college projects and, in health, quite a number of projects have been proposed. We are not in a position to announce those projects at the moment, but I will ask Kirstin Baker to give you as much of an update as we can on the detail.

Kirstin Baker: We can send the committee a detailed indicative timetable that has been published by the Scottish Futures Trust showing when the projects will come to market. Obviously with some earlier projects such as the Borders railway, procurement is already under way; we hope that some of the college projects will come to procurement later this year; and some of the health projects are proceeding to procurement.

Alex Neil: The important thing about the £2.8 billion is that it goes a long way to closing the gap. Prior to the 36 per cent reduction in our capital budget, our mainstream capital programme was averaging about £3.6 billion a year from the block grant. Obviously, that is now £2.5 billion a year. Of course the £2.8 billion NPD programme does not fully close that gap, but it helps to make up for that 36 per cent reduction in capital spend.

However, we need to do more, which is why we are looking at tax increment financing and other ways of funding capital projects. We already have three TIF projects approved and we have gone out to tender to the local authorities for another three.

Jamie Hepburn: Will you say more about TIF and talk about joint European support for sustainable investment in city areas—JESSICA—holding funds? You talked about the possibility of using pension funds to develop housing and you mentioned the Manchester model—that might get the attention of some premiership footballers; you might need to disabuse them of the notion that they should be interested in the committee's work. Will you talk about other funding models? What role does the SFT have in developing funding models?

Alex Neil: We have been talking to a number of pension funds about possible investment in housing. Fundamentally, there are two types of funding that pension funds can make available: loan funding or—as I prefer—equity funding. As part of the innovation side of our innovation and investment fund, there are proposals for pilot projects that involve pension funds, which are currently the subject of scrutiny to determine whether we can support them. We have on-going dialogue with pension funds.

We are also considering the possible use of individual savings account funds. A paper from Edinburgh Napier University, which was submitted just before the election, considered the use of such funds for investment in housing and perhaps other types of infrastructure. We are at the early stages of discussions but we hope to take them forward.

I strongly think that in principle we can make the approach work in the context of securing equity funding. There are issues to be addressed, such as the exit strategy that pension funds need and other complex issues, but I hope that in the next year or year and a half a number of projects that involve pension funds or ISA funding will be capable of being announced.

Under Treasury rules, we are allowed the equivalent of six TIF projects. Three have been announced, at Leith, Ravenscraig and—

Kirstin Baker: The third one has not yet been approved but we expect it to come to us shortly. It is in Glasgow, at Buchanan Galleries.

Alex Neil: We went out to tender two weeks ago to invite proposals from local authorities for additional TIF projects, of which three will be selected. I anticipate that we will get more than three proposals. I was talking to an Opposition spokesman this morning and I pointed out that in some circumstances even our own project could be a TIF project, if it is shown to generate the additional income that can help to pay for the loan funding that is part of the TIF. Within the overall rules by which we are governed, we will take as flexible an approach as possible. Much will depend on the economic impact of the proposals that come forward.

The European Commission will tomorrow publish its paper on the future of structural funds. It is possible that there will be a special infrastructure fund and a fund earmarked for digital investment. We do not have enough detail to give to the committee on that. No doubt the committee will want copies of the Commission's paper, which might identify possible sources of funds that are not currently available. Shane Rankin will say more about that.

Shane Rankin (Scottish Government): Commissioner Hahn, who is regional policy commissioner, signalled to the European Parliament's Committee on Regional Development recently that the infrastructure fund is likely to prioritise cross-border transport, energy and digital networks. An area of particular interest will be the trans-European transport networks that the Commission has funded during recent years to try to improve access, in particular in continental Europe.

The work might well be signalled tomorrow or in the next few days in the financial framework, which is likely to give us our first indication of the direction of travel for the structural funds and, for that matter, the wider, large-scale European funds from which Scotland benefits and will benefit in the next programme period, after 2013.

The priorities for structural funds that we can begin to see are to do with low carbon, energy efficiency, innovation, social inclusion and employability. Jamie Hepburn mentioned JESSICA, which is a financial-engineering instrument that is intended to use European funding to create funds that recycle the cash over time by joint venture investments of one kind or another. It might well be that the financial framework will indicate a range of financial-engineering instruments that could allow further investment and further use of European cash in a number of innovative ways. The financial framework will be an important signal on the way forward, on the priorities and on the opportunities to support capital investment and infrastructure investment in Scotland.

Alex Neil: I hope that we have given members a reasonable overview. We are trying everything that is possible.

Jamie Hepburn: Yes, absolutely.

Jackson Carlaw: Cabinet secretary, you said that you will have a conversation with Jeremy Hunt this afternoon on the £500 million funding for digital broadband. You said that you are looking for a fair share. I know that you will take a robust negotiating position. How do you define a fair share ahead of your discussion with Mr Hunt?

Alex Neil: A fair share will be what I ask him for. [*Laughter*.]

Jackson Carlaw: I can see the conversation going one way. Thank you.

The Convener: On that note, I think that we have exhausted our questions at this juncture. Thank you, cabinet secretary, for setting out your role and responsibilities during the next five years or so. I thank you and your officials for attending.

11:42

Meeting suspended.

11:49

On resuming—

Reporter (European Union)

The Convener: Agenda item 3 concerns the appointment of an EU reporter. This follows the agreement of motion S3M-7496, on 9 December 2010, which proposed the introduction of a Parliament-wide strategy for European Union engagement and scrutiny, including the introduction on a pilot basis, and if successful, permanently, of an early warning system for EU legislative proposals. The proposal requires subject committees to be responsible for appointing EU reporters and for scrutinising EU proposals in their area.

I refer members to the relevant paper before them, and ask for nominations for someone to act as the EU reporter.

Adam Ingram: I nominate Jamie Hepburn.

Jamie Hepburn: This is what happens when you leave the room and do not come back in time.

The Convener: Are you happy to take on the role? It is not onerous.

Jamie Hepburn: Happy is one way of describing it. I am willing, I suppose.

Neil Findlay: Do you speak French?

Jamie Hepburn: I am trying to think whether I know—no, I had better not go there.

The Convener: I had hoped, in the interests of inclusivity, that one of the Opposition members would indicate their willingness to take on the role, but they did not. If you are happy to do it, Jamie, that is great.

Jamie Hepburn: Your idea was a good one, though, convener.

The Convener: That concludes the public portion of this meeting.

11:51

Meeting continued in private until 12:11.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

Members who wish to suggest corrections for the revised e-format edition should e-mail them to official.report@scottish.parliament.uk or send a marked-up printout to the Official Report, Room T2.20.

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by RR Donnelley and is available from:

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

For details of documents available to
order in hard copy format, please contact:
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk

e-format first available
ISBN 978-0-85758-710-7

Revised e-format available
ISBN 978-0-85758-725-1

Printed in Scotland by APS Group Scotland