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Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 5 October 2011

Session 4

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

5th 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:

David Connolly (MVA Consultancy)
Professor Iain Docherty (University of Glasgow)
Colin Judge (Scottish Government)
Jessie Laurie (Scottish Government)
Aileen McKechnie (Scottish Government)
Ainslie McLaughlin (Transport Scotland)
Alex Neil (Cabinet Secretary for Infrastructure and Capital Investment)
Professor Tom Rye (Edinburgh Napier University)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 2

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 5 October 2011

[The Convener *opened the meeting at 10:05*]

Decision on Taking Business in Private

The Convener (Maureen Watt): I welcome everyone to the Infrastructure and Capital Investment Committee's fifth meeting in 2011. I remind everyone to switch off their mobile phones and BlackBerrys if they have not done so, as the devices have an impact on the broadcasting system. We are all present and correct.

Agenda item 1 is a decision on whether to take the final item and future consideration of an inquiry draft report in private. Do we agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Construction Contracts (Scotland) Exclusion Order 2011 [Draft]

Scheme for Construction Contracts (Scotland) Amendment Regulations 2011 [Draft]

10:05

The Convener: Under item 2, we will hear from the Cabinet Secretary for Infrastructure and Capital Investment on two statutory instruments that relate to construction contracts. Members should refer to the instruments and the accompanying documents, which were sent out in their pack for the meeting.

I welcome Alex Neil MSP, the Cabinet Secretary for Infrastructure and Capital Investment, and his supporting Government officials: Jessie Laurie, procurement policy manager, and Colin Judge, principal construction adviser, from the Scottish procurement and commercial directorate, and Mark Richards, who is a solicitor.

The instruments were laid under the affirmative procedure, which means that the Parliament must approve them before they may come into force. Following the evidence session, the committee will be invited to consider a motion to recommend approval of the instruments under item 3.

I invite the cabinet secretary to make a brief opening statement about both instruments.

The Cabinet Secretary for Infrastructure and Capital Investment (Alex Neil): I apologise for causing the meeting to start a bit later than its scheduled time of 10 o'clock.

I have a detailed briefing note for the committee, because I thought that it would be useful to explain in detail the purpose of both Scottish statutory instruments. The instruments are being made under powers in the Housing Grants, Construction and Regeneration Act 1996. I will set the context. The 1996 act was designed to provide the construction sector with effective and fair payment practices and, in the event of dispute, access to a quick and relatively inexpensive adjudication process.

As committee members will be aware, late payments in the industry and prolonged disputes between employers, contractors and subcontractors can significantly delay projects and put at risk businesses, particularly smaller businesses, in the supply chain. The 1996 act requires parties to make effective provision in their contracts for payment and for adjudication of disputes. If parties fail to do so, the relevant terms of the Scheme for Construction Contracts (Scotland) Regulations 1998 apply.

Extensive consultation with the industry revealed a need for changes to the 1996 act to make it more effective in meeting its objective. Those changes—to improve the exchange of information leading to payment and access to adjudication—were included in the Local Democracy, Economic Development and Construction Act 2009.

The Scheme for Construction Contracts (Scotland) Amendment Regulations 2011 will ensure that the scheme fully reflects the changes to the 1996 act. The 1996 act now provides a statutory framework for the issue of payment notices that set out the amount due and of pay-less notices when the payer intends to pay less than the amount due. The proposed changes to the payment provisions in the scheme reflect the new payment notices framework in the 1996 act.

The 1996 act now provides that agreements between parties on adjudication costs, which have in the past acted as a disincentive to referring disputes to adjudication, are ineffective except in two limited cases. The proposed change to the scheme will allow the adjudicator to determine which party should meet his or her fees and expenses, although that determination will be subject to any valid agreements between the parties.

The 1996 act now requires construction contracts to provide that the adjudicator has the power to correct a clerical or typographical error in his decision. The proposed change to the scheme will allow the adjudicator to make such a correction within five days.

The Construction Contracts (Scotland) Exclusion Order 2011 will ensure that a change to the 1996 act to prohibit any payment mechanism that makes payment conditional on performing obligations under another contract does not adversely affect privately financed projects. That change to the 1996 act addresses industry concerns about the inappropriate use of pay-when-certified clauses as a means of delaying payments to the supply chain. However, the use of such clauses is appropriate in the context of privately financed projects in which payment to the main contractor relies on the performance of obligations under other contracts such as the contract between the public authority and the project company. The effect of the proposed exclusion order is therefore to allow such clauses in the contract between the project company and the main contractor in privately financed projects. I stress that the proposed exclusion extends no further than that specific contractual relationship; it reflects the commercial realities of privately financed projects and is necessary to allow current practice to continue.

To conclude, the proposed technical changes to the scheme and the exclusion order are necessary following changes to the 1996 act to ensure that the suite of construction contracts legislation in Scotland remains effective. The changes follow extensive consultation with stakeholders. Equivalent changes to the legislation in England and Wales have been approved by the United Kingdom Parliament and the National Assembly for Wales respectively.

The Convener: Thank you. Does anyone have any questions for the cabinet secretary?

Neil Findlay (Lothian) (Lab): You couldnae repeat that, could you? [*Laughter*.]

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): I have a couple of questions for the cabinet secretary. Does section 110(1A) of the Housing Grants, Construction and Regeneration Act 1996 apply to conventionally funded public sector contracts? Clearly, you are talking about private finance initiative construction contracts.

Jessie Laurie (Scottish Government): Yes, it will apply to all other construction contracts.

Adam Ingram: Why is that, especially given the need to ensure that the public interest is served? Should there not be a similar scenario for non-PFI contracts? You are saying that the purpose of the order is that section 110(1A) will not apply to PFI contracts.

Jessie Laurie: The provision will not apply to contracts between the project company and the main contractor in PFI or similar projects. That is because of the different structure of those particular contracts and the risk arrangements relating to them. It is appropriate for the provision to apply to other typical construction contracts.

Adam Ingram: Could you explain a little bit more why PFI would appear to have been singled out for special treatment?

Colin Judge (Scottish Government): In privately financed projects, payment arises on delivery of the facility that is associated with the service—it is the service that is purchased under private finance arrangements. The contractor that is delivering that facility is paid only on completion whereas, in conventionally funded projects, the contractor is usually paid at monthly intervals. For a typical 12-month project, the contractor in a conventionally funded project will be paid at the end of every month according to the interim valuation that they submit to the client’s cost adviser or project manager.

Funding arrangements on privately financed projects are not conducive to making monthly payments to the building contractor. There are four tiers of management, if you like, on privately financed projects. Tier 1, which is the client, is invariably a public body. At tier 2, there is the project company, which, in the days of PFI projects, was known as a special purpose vehicle, or SPV. The SPV will employ a main or prime contractor, which is at tier 3, and tier 4 is made up of the various subcontractors that are involved in delivering the specialist areas of the facility that is required to be constructed. The client at tier 1 will pay the project company, and the project company will pay the prime contractor, only when the facility has been delivered and the service is being provided. That differs from conventionally funded projects, in which the main contractor is paid at monthly intervals or other intervals as agreed in the terms of the contract.

10:15

Adam Ingram: Would the instrument also cover non-profit-distribution-type financing?

Colin Judge: Yes.

Adam Ingram: Okay. My next question is on how the exclusion order will work. Could it work against the interests of small localised companies that seek work in these types of projects?

Colin Judge: By these types of projects, do you mean NPD or other privately financed projects?

Adam Ingram: Yes.

Colin Judge: It depends how we define smaller local companies, but I suppose that, for the purposes of this discussion, they would be regional contractors that operate, for example, in Aberdeen, Aberdeenshire and Moray—that kind of hinterland. By and large, they would tend not to be involved in the upper tiers of delivering NPD projects. The one notable exception through the years has perhaps been the construction company Robertson of Elgin, which has built up quite a portfolio, but the smaller, more local businesses tend to be involved further down the tiers. In that context, the exclusion will not apply to them. They will be paid for the work that they have done according to the terms of the contract that contain the valuation rules for the work on site.

Adam Ingram: The instrument applies in NPD only to the relationship between the project funder and the main contractor, and other contractors underneath that level are not affected.

Colin Judge: That is correct.

Adam Ingram: And it is at that level where small and local firms come into the picture—as subcontractors.

Colin Judge: Yes, more often than not.

Adam Ingram: You mentioned that, during the consultation process, businesses suggested that the adjudication process needed to be adjusted and improved on. Who provides adjudication and how is it initiated? Typically, how long does it take and how much does it cost?

Colin Judge: On initiation, the party to the contract that has not been paid either on time or according to the value that it thinks it is due will consider whether to go to the dispute resolution process. If it chooses adjudication, it will serve notice on its contractual party of its intention to seek adjudication.

There were and there may still be—you will have to forgive me as my knowledge is somewhat rusty—adjudicator nominating bodies that contain banks of adjudicators. Contractors seeking adjudication can approach those adjudicators and liaise with the nominating body to secure the services of an adjudicator. Some contracts go so far as to name the status of an office-bearer who will be an adjudicator in any dispute.

I am afraid that I do not have the knowledge on average costs to hand. Duration can be 28 days for an adjudicator. It is quick and sharp—“quick and dirty” is the usual phrase—and it has been termed rough justice. The decision is not binding, so parties can choose not to agree, but adjudication gives the ability for parties to air their differences in a short timescale with a construction industry expert, who may or may not be a lawyer, acting in the capacity of adjudicator. The theory was, and I believe still remains, that, once the parties get the decision, they can move on to deliver the project. If they feel that the adjudicator’s decision is not suitable or if they disagree with it, they can take further action and move to a more litigious process through the courts.

Adam Ingram: There is no disincentive for a small firm to go down that route. It will not cost it an arm and a leg to go through the process to get its bills paid.

Colin Judge: Adjudication was designed to avoid that more litigious process. Statutory adjudication came into being in 1998. Part of the reason for introducing it was to address the costs that are associated with arbitration and formal litigation. Since then, adjudication has become the formal and default dispute resolution process in the construction industry. The purpose of the changes is to remove perceived barriers to smaller businesses accessing proper adjudication services.

Adam Ingram: During the consultation, did you receive submissions from the Federation of Small Businesses or other organisations that represent the interests of small business? I notice that many major contractors were consulted during the process of finalising the instruments.

Alex Neil: The FSB is not listed. I think that it had the opportunity to make a submission but, obviously, it chose not to do so.

Jessie Laurie: We contacted the FSB directly, but it chose not to respond to the consultation.

The Convener: Did the need for the legislation arise in Scotland, or is it that there were big problems in other parts of the UK and we are just coming into line with legislation there?

Alex Neil: My understanding is that there have been problems in other parts of the UK, too. As I said, the changes have already been made in England and Wales.

The Convener: Did some of the problems arise because contracts were not as tightly drawn as they might now be, given that we have organisations such as the Scottish Futures Trust that are involved in drilling down into projects?

Alex Neil: My understanding is that the 1996 act has been overtaken by events and by changes to the way in which contracts are organised, particularly in the public sector, that were not envisaged when the act was drawn up. The purpose of the instruments is to keep the legislation up to speed with developments in practice in the construction industry.

The Convener: As there are no more questions, we move to item 3, which is formal consideration of motions S4M-00910 and S4M-00913, which call for the committee to recommend approval of the two affirmative instruments. I invite the cabinet secretary to speak to the motions, if he wants to, and to move them.

Alex Neil: I am sure that the committee will be delighted to hear that I will forgo the opportunity to say any more and just move the motions formally.

Motions moved,

That the Infrastructure and Capital Investment Committee recommends that the Construction Contracts (Scotland) Exclusion Order 2011 [draft] be approved.

That the Infrastructure and Capital Investment Committee recommends that the Scheme for Construction Contracts (Scotland) Amendment Regulations 2011 [draft] be approved.—[*Alex Neil*.]

Motions agreed to.

The Convener: The committee's report will confirm the outcome of the debate on the SSIs.

10:24

Meeting suspended.

10:25

On resuming—

Infrastructure and Capital Investment

The Convener: Item 4 is evidence from the Cabinet Secretary for Infrastructure and Capital Investment on matters in his portfolio that relate to the committee's remit. I welcome the cabinet secretary, Alex Neil MSP, and his officials from the Scottish Government: Ainslie McLaughlin, who is from Transport Scotland; and Aileen McKechnie, who is head of the innovations and industries division. I invite the cabinet secretary to make a brief opening statement.

Alex Neil: I will be brief this time. First, it might be useful to remind members what is covered by my portfolio. This is a unique portfolio in that it is the first time that a head of a Government in the United Kingdom—the First Minister—has brought infrastructure and capital investment into one portfolio. My portfolio covers housing, transport, digital strategy, water, European structural funds and procurement policy. I am also responsible for regeneration, fuel poverty and a range of other matters of which the committee is aware.

The purpose of the approach is to drive forward the Government's capital investment programme. It is important to explain to the committee that the Government strongly believes that increasing capital spending is essential at this time of economic difficulty. We think that for two reasons. First, it is generally recognised that, for every 1 per cent of gross domestic product spent on capital investment, 0.3 per cent of additional growth is generated annually in the economy, on a permanent basis.

Secondly, the multiplier impact of capital spending is significantly higher than the multiplier impact of resource spending. Of course, resource spending, which includes teachers' salaries and national health service operating costs, is extremely important. However, given that our overriding objective is sustainable economic growth, we have decided to transfer £750 million in total from the resource budget into the capital budget over the three-year period of the comprehensive spending review, starting next April.

The other significant development is the NPD programme of £2.5 billion of expenditure, which will cover about £1 billion of capital spending on transport. The main projects in that regard will be the Aberdeen western peripheral route, which I am sure the convener supports, as well as the M8 bundle, which is a major improvement in the M8 between Newhouse and Baillieston. The other £1.5 billion will be split fairly equally between education and health. In education, the programme will fund, for example, the new Inverness College, the new Kilmarnock College, the new City of Glasgow College and an expansion in the schools programme. Major projects in health, which will be the beneficiary of about £750 million, include the Royal hospital for sick children in Edinburgh and various hub and local health clinic projects.

I remind the committee that, in his final budget as Labour Chancellor of the Exchequer, Alistair Darling cut capital spending by 36 per cent in real terms over this year and the subsequent three years. His decision was endorsed by George Osborne. We think that that approach was misguided. In the current economic circumstances, the emphasis should have been on maintaining, not reducing, capital spending, for the reasons that I set out. However, we are where we are. That means that our core capital programme, which is part of the block grant from the Treasury, has gone down from about £3.6 billion a year to £2.5 billion a year. Therefore, the £2.5 billion NPD programme will go some way to closing the gap and the black hole that will be left by the cuts that have been imposed on our capital budget.

Over the next three-year period, between our main capital programme and NPD, we will invest a total of £10 billion. On top of that, there will be substantial investment in the railway network, funded through RAB—which is the regulatory asset base method of funding. The figure that I have just given does not include, for example, the entire investment programme for Scottish Water, because some of that is being funded from reserves that Scottish Water has built up.

10:30

As you know, convener, we have requested the UK Government both to increase the borrowing powers proposed in the Scotland Bill and to bring forward this Parliament's ability to use those borrowing powers. We would like to increase our capital spending by more, to see us through these difficult economic times and to sustain as high a level of employment as we can.

The Government's strategy in relation to capital spending is obviously paying dividends. Compared with the rest of the UK, Scotland's figures for unemployment have been moving markedly down. Employment levels in Scotland are markedly higher than in other parts of the UK. We believe that that is the result both of bringing forward capital spending two years ago and of maximising, within our limited resources, the level of capital spend in the economy in Scotland.

The Convener: We will start our questions with a question on the Borders railway.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): I thank the cabinet secretary for his introductory remarks, on which I would be tempted to ask lots of questions. However, the convener would pull me up if I did, so I will stick to a question on the Borders railway, which will be the first item in our rather limited questioning this morning.

You did not mention the railway, which was interesting in itself, and I would be interested in the background to the end of the tendering process. Furthermore, tying in with your opening statement, would you talk about the funding method and about how payments will pan out for the Borders railway?

Alex Neil: The Government is very committed to the Borders railway, and we maintain our intention to complete it by the turn of 2014 and 2015. We regard the railway as an essential part of the jigsaw in maintaining high levels of economic activity in the Borders.

When we originally envisaged the project, we put it out to tender as an NPD project, and we had three initial tenders. Two of those tendering have subsequently withdrawn. One consortium withdrew because it had too much work. It had been successful in another major contract and felt that it did not have the capacity to commit to the Borders railway. That left us with just one consortium tendering, and we considered whether we would be better to leave ourselves at the behest of that one tendering consortium, or to go down the road of working with Network Rail and funding the project through RAB. Once we had examined the pros and cons, it became clear to us that the sensible way in which to fund the project was to use the RAB mechanism. Network Rail agreed, so it will be responsible for the project. If you would like more detail, I am happy to invite Ainslie McLaughlin to comment.

Malcolm Chisholm: Thanks, but I will ask another question first. I am told that Network Rail has still to review the project and to put in place its delivery plans. That leads me to ask whether you are confident about the delivery date of 2014-15.

However, I am more interested in the funding. I think that the budget announced so far is somewhere between £235 million and £295 million. Would you explain how the regulatory asset base approach will work? In particular, when will payments be made? Will they be part of this spending review period, of subsequent spending review periods, or of both?

Alex Neil: The regulatory asset base is, in many respects, not dissimilar to the NPD programme. In essence, the money is borrowed by Network Rail and then, once the project is up and running, we pay a unitary charge to Network Rail over a period of years. That is similar to how NPD works, and RAB is now an established mechanism. Indeed, I was at a conference on infrastructure in London last Wednesday, and it is clear that the UK Government is considering using the RAB funding technique for non-railway projects—specifically, for other infrastructure projects.

Our target date to complete the project is the end of 2014. We are in detailed negotiations with Network Rail about how we reach the milestones and we are trying to finalise in more detail precisely how we achieve the target. We are happy to report back to the committee as the finalisation of the detailed negotiations proceeds.

Malcolm Chisholm: The capital cost will be between £235 million and £295 million, but annual payments will start to be made in the next spending review period.

Alex Neil: They will be in the next spending review period. We do not start paying for the railway until it is completed and up and running.

Malcolm Chisholm: Obviously, you do not think that the decision on the funding method for the project rules out the non-profit-distribution model for other projects, but does your experience of the tendering process for the railway raise any questions about that model?

Alex Neil: It does not really raise any questions, although it tells me that some companies are doing extremely well despite the recession. They have reached their internal capacity and cannot tender for other work because they are already well stretched with the work that they have. One reason why I am keen to publish our pipeline of work and to make it much more transparent than it has perhaps been in the past, and to be more precise with the industry, is so that it can better manage its teams. To bring together a team for a project such as the Borders railway—even the funding team, let alone the contracting team—is a significant operation. It is clear to me from discussions with the industry that the more visibility it has of the pipeline of work across the range of Scottish Government investment, the more it can plan to put in place the skills and funding that it needs to carry out such substantial projects.

The RAB approach has been used for a number of other projects by Network Rail in Scotland. I am happy for Ainslie McLaughlin to give more details of that.

Malcolm Chisholm: A few months ago, John Swinney talked about not overcommitting on NPD. I think that he talked about having 1 per cent of the budget for payments on NPD and 4 per cent when combined with PFI payments. Will the RAB payments for future commitments be contained within that figure, or will they be over and above it?

Alex Neil: That is a guideline. We fund projects in various ways. At present, we do not have borrowing powers, but the guideline will apply when we have borrowing powers and have to pay back what we borrow from the Public Works Loan Board at its rates of interest. We also have RAB repayments and the legacy of PFI unitary charge repayments, and we now have NPD repayments. As a rough rule from the Treasury, to be prudent, total repayments in any one year, either to the Public Works Loan Board by way of interest or by way of unitary charges for RAB, NPD or PFI, should not exceed about 5 per cent of the total departmental expenditure limit.

Jackson Carlaw (West Scotland) (Con): I want to return to the process for the Borders railway. You mentioned that the three consortia came down to one, which led to the decision to go down the Network Rail route. I assume that the last of those bidders will have incurred a considerable cost in proceeding through the bidding process. Does it have any expectation of recovering that cost?

Alex Neil: When any company bids for work, it will take into account the risk of not getting the work, particularly if it is bidding in a competitive situation. When the original bid was submitted, the situation was clearly competitive. Every one of those companies always bids for work knowing the risk of not getting it. That is well understood in the industry. If we start paying out compensation to everybody who does not win a public sector contract—

Jackson Carlaw: But might not the consortia have been bidding on the basis that one of them was going to get the work?

Alex Neil: There is always a risk. Whatever risk the companies built into the business plan is a matter for them. At the end of the day, we cannot get into a position in which we give compensation to companies that do not win contracts.

Ainslie McLaughlin will give more details on that.

Ainslie McLaughlin (Transport Scotland): Specifically on the Borders railway, we made it clear to all bidders that no payment would be made for tender costs in the case that the project did not proceed or to the two bidders that lost out on the competition. The three bidders did ask about that. For some contracts, such as the Forth replacement crossing contract, we agreed up front that we would pay bidders aborted bidding costs, or that we would pay aborted bidding costs if the project did not go forward. However, it was quite clear, up front—

Jackson Carlaw: Yes, but this project is going forward.

Ainslie McLaughlin: What we were clear on was the case if the competition, the tender, did not proceed. That was made clear to all three bidders.

Alex Neil: In other words, the companies knew exactly the terms and conditions—

Jackson Carlaw: So, they understood that they were bidding for a process and that the Government might change its mind and not allow any of them to be successful because it was going to take a different route altogether.

Alex Neil: In fact, when they were bidding, there was a theoretical possibility that the project would not go ahead.

Jackson Carlaw: I understand that they would understand that the project might not go ahead. However, the project is going ahead. Are you saying that they were aware that the project may very well go ahead but that the Government would not accept any one of the tenders that were being made?

Alex Neil: Yes, it was made very clear to them that, whatever the scenario, we would not be paying out any compensation.

Jackson Carlaw: Fine. I am happy to let it stand at that and just check that that is their understanding too.

Is any of the work that has already been done salvageable?

Alex Neil: I am sorry?

Jackson Carlaw: Salvageable—the design work that will obviously have been done in relation to the project to date.

Alex Neil: I think that it is, but I will ask Ainslie to give more details.

Ainslie McLaughlin: The preliminary reference design done by Transport Scotland remains, is available, and will be passed across to Network Rail, which can use it to develop the project quickly.

Jackson Carlaw: You were keen to say that you expect the project to be completed in 2014-15, within the budget originally set. Now that the project is with Network Rail, will it have to go through the whole *Official Journal of the European Union* process, or will some of Network Rail's existing framework contracts allow procurement to be fast tracked so that things can get under way sooner rather than later?

Ainslie McLaughlin: Network Rail has a number of ways of taking the project forward through the framework contracts already in place, as you suggest. It can also short circuit, to some extent, the OJEU process, as it already has a standing list of contractors that have been through a pre-OJEU process. That will shorten things.

Jackson Carlaw: So the answer is yes.

Ainslie McLaughlin: Yes, there are ways in which Network Rail can shorten the procurement process.

The Convener: Cabinet secretary, you said that one of the contractors pulled out because it had too much work; I do not know whether you know why the other bidders pulled out. It seems to me that a problem in Scotland is that the consortia that bid for major pieces of work tend to be international companies. Contractors in this country are used to competing against each other for small contracts, but seem unable to come together into consortia that could bid for large contracts. How can we get past that? Can the Government help in any way?

10:45

Alex Neil: As well as transport, one of my responsibilities is procurement. We are considering how we can make further reforms to procurement processes so that indigenous companies can maximise their opportunities and be competitive enough to win work—not only in Scotland but elsewhere. There has been a tendency across the board to issue a small number of very large contracts, even for fairly routine things such as stationery, rather than to issue a larger number of smaller contracts, and there is some anecdotal evidence that the impact of that on the economy can be negative.

That is why we, in our submission to the European Union's review of procurement procedures, included a recommendation that when it announces its reforms—which we hope will be early next year—it will allow countries to take into account the impact of a particular decision on the local economy when they decide the outcome of a tendering process.

The best recent example was down south, when the train-making factory in Derby was unlucky and did not win a substantial contract for a project in London. The contract was won by a consortium led by Siemens of Germany. One issue is that the cost to the public sector of making 1,000 people in Derby redundant, which was the direct result of that decision, might far outweigh the savings in awarding the contract to Siemens. It might not, but we believe that we should be able to take such issues into account. Similarly, many parts of rural Scotland and England can be particularly badly affected by tendering decisions, which can have a major impact not just on a company, but on the local economy. Our view is that we should be able to take such matters into account in deciding how to award contracts.

On the capability of the industry, with the two large road projects that have just been completed ahead of time and well within budget—the M80 and M74 completion projects—the vast bulk of that work was done by companies that are headquartered in Scotland. I recognise that there is sometimes a problem with bigger contracts. The contract for the Forth crossing is huge and is by far the biggest civil engineering contract in Scotland and probably in the UK at the moment. Morrison Construction is a lead part of the consortium. Some specialist services have to be procured from outwith Scotland, but the presence of reputable and good Scottish companies such as Morrison Construction is testament not only to the way in which we are trying to procure projects but, more important, to how such companies are growing their business.

The Convener: We will move on to the Edinburgh trams.

Gordon MacDonald (Edinburgh Pentlands) (SNP): With the winding up of TIE, which managed the tram project from its inception, will you describe the new governance arrangements for the project and say what the role of Transport Scotland and ministers is?

Alex Neil: I emphasise that the Scottish Government has no involvement whatever in the contractual arrangement between the contractor and the City of Edinburgh Council. We have no liability as far as that contract is concerned and we are not entering into any such liabilities. We are making available resource of up to five people with the relevant expertise as part of the project management team, which is now in effect within the council. The Transport Scotland element of the team is headed by Ainslie McLaughlin, who has a lifetime's experience of managing such projects. He managed the two projects that I referred to earlier: the completion of the M80 and the M74. The M74 project was £20 million under budget and eight months ahead of time, and Ainslie was responsible for its project management. He will be the leader of the Transport Scotland team that is operating as part of the wider joint team in the City of Edinburgh Council.

Gordon MacDonald: Why have you brought in Transport Scotland at this point, when there have been problems with the project all along?

Alex Neil: Right at the beginning, shortly after the Parliament, against our wishes, allocated £500 million to the project, the Auditor General for Scotland issued a report in which he said that he was satisfied with the governance of the project, the quality of the project management and the strength of the team that had been put together. As you know, the Auditor General is the Scottish Government's main source of advice and information on such matters. Given the clean bill of health from the Auditor General, we saw no need for us to intervene.

In any case, it was the City of Edinburgh Council's project, not the Scottish Government's. There are many projects in Scotland that the Scottish Government either partly or wholly funds but in which we have no direct involvement. For example, every year we give hundreds of millions of pounds to housing associations in Scotland—for fairly substantial projects in some cases—but we are not involved in the contractual procedures. We simply write the cheque for part of the cost. We were in a similar situation with the trams.

The whole thing went wrong—Gordon MacDonald knows the history of it better than I do—and there was a legal dispute between the council and the contractor. We felt that it would be wholly inappropriate—and the Auditor General took the same view—for the Scottish Government to become involved when the project had effectively been halted due to a substantial legal dispute.

When that dispute was resolved, we considered the situation and decided that in order to protect the Scottish taxpayers' investment, it was an appropriate time for us to step in—with the agreement of the City of Edinburgh Council—and participate in the project management to try to ensure that the project finishes within the new budget and on the new timescale.

Gordon MacDonald: Do you envisage that the Scottish Government will at any point contribute more than the £500 million?

Alex Neil: We—the First Minister, John Swinney as Cabinet Secretary for Finance, Employment and Sustainable Growth and I—have stated categorically that we will not be putting another penny into the project and that remains our position. We fully intend to ensure that the new budget is sufficient for completion of the project, which is one of the reasons why we have agreed to participate in the project management for the next three years. If, perchance, there is any additional cost, that is the responsibility of the City of Edinburgh Council, and not—as I emphasised in the first sentence of my reply—the Scottish Government.

Gordon MacDonald: The balance of £72 million that we have still to pay will be paid in staged payments. Are there any targets or criteria that must be met before those payments are made? Do you have the right to veto those payments if the criteria are not met?

Alex Neil: Absolutely. We have agreed on a work plan with the City of Edinburgh Council. It is clear that, as we go along, new issues will arise and decisions will have to be made, but we have made it clear that the money will be paid out, provided that any strategic decisions about the project are in line with our wishes. Otherwise, we reserve the right not to pay out.

The schedule for payment is £12 million this year, £25 million the following year, £25 million the year after that and £10 million in the final year.

Jackson Carlaw: The circumstances that led to your colleague Mr Swinney intervening directly, involved a series of rather bizarre meetings that took place over a number of days, latterly at the City of Edinburgh Council. Mr Swinney intervened to say that the Government was not prepared to complete the final tranche of funding for the project if it was to vary considerably from what the taxpayer expected and what the Government believed that it was funding.

I want your confirmation that that has been applied as a general principle, as well as your assurance that there are no other projects that I would be able to identify—or to which you would wish to confess—for which Government funding is either not complete, or has been completed and that have varied significantly from what the taxpayer originally expected to contribute to.

Alex Neil: Not under this Administration. Where changes have been made, they have been agreed, but that has certainly not occurred as a result of incompetence.

Jackson Carlaw: I shall take that assurance and interrogate it ruthlessly, cabinet secretary.

Alex Neil: I am sure that you will, if you get the time to do so in your new position. [*Laughter*.]

The Convener: We will move on to the Edinburgh to Glasgow improvement programme.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): We have discussed the regulated asset base approach in relation to the Borders railway. EGIP involves a greater and more significant level of investment using the same approach, which I want to explore with the cabinet secretary. I understand that the driver for the project is primarily to reduce journey times from A to B, which in this case stand for Edinburgh and Glasgow; that may come as no surprise, given the name of the project.

Perhaps the cabinet secretary can set out the improvements that there might be for communities in between, such as Cumbernauld and Kilsyth or—dare I say it—Airdrie and Shotts.

Alex Neil: The major improvement for Airdrie and Shotts has come from the opening of the Airdrie to Bathgate line, which is a massive boost for the Airdrie economy and represents major investment by Network Rail, very much supported by the Scottish Government—

Jamie Hepburn: I should have been clearer. I really meant Cumbernauld and Kilsyth.

Alex Neil: We are always conscious of the need to improve connectivity to Cumbernauld. There has always been a debate about improving the service between Glasgow and Edinburgh and whether there should be more stops—and more regular stops—in the communities between the two cities.

The Government policy objective is twofold. First, it is substantially to improve connectivity by train between Glasgow and Edinburgh, so that the number, speed, quality and comfort of the trains are what they should be in the 21st century. Edinburgh is our capital city and Glasgow is our largest city, and the connectivity between the two is an essential feature of growing the Scottish economy, as we know.

Our second objective is to ensure that the communities in between, such as Cumbernauld, Airdrie and Falkirk, are also well served by the railway system. A high-speed connection between Glasgow and Edinburgh and a better service to the communities in between are not mutually exclusive. We have to look at improving rail services in central Scotland and particularly in the strip between Glasgow and Edinburgh and ensure that there are good train services to and from Cumbernauld, Airdrie, Falkirk and so on. However, there is a market for a straightforward, more-or-less non-stop connection between Glasgow and Edinburgh, and we must serve that market.

Jamie Hepburn: Network Rail is taking the programme forward through the RAB approach, which you mentioned, at the behest of the Scottish Government and Transport Scotland. Will you say more about the relationship between the bodies in that regard? Who comes up with the specifics of the project?

Alex Neil: We have limited powers over the operation of Network Rail in Scotland, which were devolved to us during the previous 18 months or so. The position is now that Transport Scotland, which is an integral part of the Scottish Government, agrees with Network Rail its investment programme. There is a mutual approach to the discussion. We want to improve the service between Glasgow and Edinburgh and we think that it should be electrified; Network Rail tells us what the implications and estimated costs of doing that would be and so on. Eventually we end up with a commercial agreement, whereby Network Rail will electrify the line over an agreed period, on the basis of its access to RAB funding, and we agree the unitary charge profile for when the project is completed. In other words, there is a partnership, in which in essence Network Rail is primarily the supplier and we are primarily the customer.

Jamie Hepburn: Does that mean that the customer gets what they want? Does the Government say specifically what it wants?

Alex Neil: It is up to the Government to decide what it is prepared to fund. It is then up to Network Rail to ensure that it builds the project to our specification.

Jamie Hepburn: The project is out for informal consultation—formal consultation will take place further down the line. I have had detailed discussions with Network Rail in that context, as you will appreciate. I keep being told that the plans are not set in stone, although I must say that they seem to be fairly hard and fast whenever we suggest alternatives. How concrete are the specific parts of EGIP?

Alex Neil: Parts of the programme are pretty well set in concrete, in terms of what has to be done from the engineering and land availability point of view, for example in the context of the route that has to be taken. In other parts of the project, options are still open. Ainslie McLaughlin can fill in some of the detail now or in writing.

11:00

Ainslie McLaughlin: Transport Scotland chairs a project board working with Network Rail to look at the specification and technical details of the delivery of the programme. As the cabinet secretary said, a consultation exercise is taking place.

Some work has been identified, in particular a new intermodal station at Gogar to link in with the Edinburgh tram. Work is progressing on that and it seems to be an integral part of EGIP. Planning is well advanced for the electrification works, which are also seen as a core requirement of EGIP. Continuing discussions will be informed by the outcome of the consultation later next month.

Alex Neil: It is a genuine consultation and the Government will listen to all representations before final decisions are taken.

Jamie Hepburn: The overall cost of the project has come down a little from initial estimates. Can you set out why that might be? Is it a combination of envisaged projects not being taken forward and better value being achieved through the procurement process?

Ainslie McLaughlin: The overall cost is a target that we are looking at to get best value. Our target is that the specification that we seek for EGIP should be delivered within £1 billion. The McNulty report recently said that there was significant scope for further efficiencies in the rail industry. We are working with Network Rail and the Office of Rail Regulation to bring the EGIP programme in as efficiently and effectively as possible.

Alex Neil: Obviously, where we can identify better value for money, we do that. The one thing that you can say about Network Rail is that it is very good at project management and engineering.

Jamie Hepburn: On a related matter, Network Rail and the train operators published their initial industry plan for Scotland last week. I had a meeting with them, as they asked me to meet them and I was happy to do so. I am sure that the plan is still being considered in some detail, as it is a weighty document. Does the Government have an initial response to the plan?

Alex Neil: No, it is too early for us to comment publicly on it. The plan makes a number of suggestions, some of which are perhaps more acceptable than others. We will take our time to consider all the options.

Obviously, we are looking at the long term. The current cycle for franchising ends in 2014 and the new cycle starts around that time. We need to do a lot of planning and consultation before we begin to consider, let alone reach final decisions on, the way forward. We must discuss the plan with a large number of stakeholders and it is too early for us to comment on the specifics of what was proposed last week.

Jamie Hepburn: I am sure that that is something that we will be interested to look at later.

Neil Findlay: Mr Neil, despite what I have been told, I know that you are a fair man, because you have acknowledged the wisdom of the previous Labour-led Administration in commissioning the Bathgate to Airdrie line and the boon that it has brought to your constituents. Will you turn your mind to the other end of your constituency, on the Shotts line, and support my position that there should be a move to upgrade that line, in particular through electrification?

Alex Neil: I am always in favour of anything that will improve communications in my constituency. I am sure that Neil Findlay will recognise—anybody with Neil in their name must be fair—that in this job I have to take a wider perspective. We are continually looking at where we can, and where we can afford to, upgrade the railway line. We have already announced major commitments: in terms of the cost Borders rail and EGIP are the two outstanding ones.

We keep things continually under review. We will publish an update to the infrastructure investment plan in November, and we will be showing people our long-term strategic programme sometime early in the new year. The project that you have described is the kind of project for which we will have to decide whether we will be able to afford upgrades other than the ones already announced.

Neil Findlay: Network Rail's plan identifies the project as a priority. I am sure that you will be shouting about it at the Cabinet table.

Alex Neil: I consider things in the round, and try to go for things that will promote economic growth in Scotland. As I suggested earlier, Shotts is an essential part of the infrastructure of central Scotland. For a long time, it has been a major contributor to the Scottish economy. People sometimes think of Shotts as a small mining village, but it is far from that. It is a robust community, and if you include the surrounding villages, there is a population of about 10,000. Shotts is an important part of the line, and an important part of the economy of that part of Scotland.

Neil Findlay: We also have to consider the continuation of services to places such as Addiewell and, further along the line, Kirknewton. If they were being honest, people in the railway companies would probably like to close stations on the line, so upgrading is vital for the sustainability of the communities.

Alex Neil: Absolutely. We are keen to invest in the railways because we acknowledge their importance to the infrastructure of Scotland, but we have to consider affordability and various aspects of the capital spend. The capital cost will affect the unitary charges that we will have to pay if we are funding a project through RAB. We also have to consider franchise costs. Beyond 2014, a major challenge for all of us in the UK will be how to fund the exponential growth in franchise charges in the railways. It is not simply a question of whether we can afford the initial capital investment and the unitary charges; we will also have to consider the payment of franchise charges, which are a not insignificant amount of our railway budget.

However, let me make it clear that, in principle, we want to improve the line that you mention if we can, and we want to do so as early as possible. You will have to wait for the infrastructure investment plan and the update of the strategic transport programme before we can specify our priorities exactly.

The Convener: Cabinet secretary, you mentioned the importance of good end-to-end connectivity on the Edinburgh to Glasgow line and of serving the communities in between. In the north-east, there is a dilemma: we want to reduce the journey times between Aberdeen and Edinburgh, but we also want to serve the communities in between. Near Aberdeen, stops are often limited to places such as Portlethen and Stonehaven, although things are not so bad near Edinburgh because of the Fife line. How do we resolve the dilemma of ensuring that commuters can get on the train not only at the major stops but at the places in between while, at the same time, reducing journey times?

Alex Neil: We are always considering demand profiles, and the profile between Aberdeen and Edinburgh is similar in many ways to the profile between Glasgow and Edinburgh. The market can be divided into two broad categories—those who simply want to get from Glasgow to Edinburgh or from Edinburgh to Glasgow as quickly as possible without any stops whatever, and those who want to travel to or from the communities in between. There will be many journeys between Falkirk and Glasgow and Falkirk and Edinburgh, or between Cumbernauld and Glasgow and Cumbernauld and Edinburgh.

Similarly, in the north-east, there are people who want to get from Dundee to Edinburgh or Aberdeen to Dundee as quickly as they possibly can without any stops, but that is a long line with many communities on it, and some people will want to use it to travel between, say, Dundee and Arbroath. We are always trying to profile the railway service—the operating service as well as the infrastructure—so that we can match it as closely as possible to the profile of demand.

The Convener: But we have underestimated the demand in the past. Laurencekirk station has shown that. Surveys that I have conducted of what the demand might be for stations in various areas have shown that it is well above what it is considered to be.

Alex Neil: Absolutely. Where appropriate, we have to update the demand profile and take that into consideration when deciding our investment programme.

The Convener: Jackson Carlaw has a question on future transport plans and programmes.

Jackson Carlaw: If Scottish ferries ran to the same variable timetable as the Scottish ferries review, by now we would have to say that all passengers were deemed to be lost at sea. Are you able to give us a firm indication of when the Government will publish the results of the Scottish ferries review, including the draft ferries plan?

Alex Neil: I will give you an undertaking: the ferries review will be published before the Christmas recess, come what may.

Neil Findlay: Does the Government still plan to introduce the single route tenders for the ferry process?

Alex Neil: We have just gone out to tender with NorthLink. That is an unbundled tendering process. We will see what that produces. We are doing that because we believe that we can get value for money and better service that way.

We are not stuck in any grooves. We want what is best. Sometimes, what is best for one particular service might not be best for another service. Value for money and quality of service are the two key criteria.

Neil Findlay: Earlier, you spoke about the Siemens situation, which is similar to the situation that we are talking about now because, if we introduce single route tenders, there is a danger that there will be a decline in jobs, living standards and all the rest of it—I am thinking about the situation with regard to the Transfer of Undertakings (Protection of Employment) Regulations. The workforce has great concerns about the single route tenders option.

Alex Neil: We must consider the situation in its totality and in conjunction with the Government's other initiatives, particularly because of the constrained financial situation, which is why the ferries review that Jackson Carlaw referred to is important. As Neil Findlay knows, we intend to build on the success of the road equivalent tariff pilot project in the Western Isles. The evaluation showed that it was not of great benefit for commercial traffic but, with regard to passenger traffic, it provided a major boost to the Western Isles economy. Our intention is to roll out the road equivalent tariff to other areas.

Our objective is to expand and improve the ferry service and to use it—as we have done in the Western Isles, with RET—as a major instrument of economic growth for the island communities. That will lead to the creation of a significant number of jobs.

With regard to the Gourock to Dunoon tender, we managed to ensure that there were no compulsory redundancies and that any job losses involved people who were due to retire or who volunteered to be made redundant. From memory, I think that we kept the job losses to six. We are conscious of the situation in the isles, where jobs can be scarce.

We have to look at the policy in the round and at how to get more value for money. If we can reduce the cost of the ferry service and invest that money in rolling out the RET, the net economic impact will be far greater than if we retain the current level of manning and ferry service.

11:15

Neil Findlay: We might have to agree to disagree on that. There is real concern among communities that going down the single route tendering process could undermine the service. Equally, driving down the incomes of the people who work on the ferries is a genuine and real problem.

Alex Neil: In the tender that we put out last week, we nominated Stromness and Scrabster as the two ports and the 90-minute journey time was part of the invitation to tender. Far from being a reduction in service, that is very much confirmation that we are committed to those elements of the contract. Those were the litmus tests for people in that part of Scotland. I have had a letter of congratulation from the convener of Orkney Islands Council, saying that he is delighted with the specification in the invitation to tender.

Jackson Carlaw: It strikes me, and it has for some time, that the democratic process and the elections to the Parliament probably interrupted Parliament's reviewing of the lessons from last winter and preparations for this winter, so we were not able to do the quality of work that we might have been able to do. We have been relying on the Government to carry on with that. I note that a debate on winter resilience is scheduled for when we come back after the October recess. Even with the new reach and power of a majority Government, I have seen no legislation to ban snow, so I expect that you anticipate that it will be necessary for us to be properly prepared as we go into winter. When do you expect a report to be available for members to consider ahead of the proposed debate? What risks might we still need to take into account in relation to the preparations that you have made?

Alex Neil: We are working very closely with Philip Hammond. I met him in London last week and we discussed the matter because Westminster is obviously wrestling with the same kind of issues that we are wrestling with because the weather is so unpredictable. I have to say that two scientist friends of mine who do not know each other have both told me that this winter is going to be the worst in 200 years, and I told Philip that.

Jackson Carlaw: I met Mr Hammond yesterday and he did not pass that nugget on to me, but I am grateful to you.

Alex Neil: Whether we are talking about grit and salt or logistics, we are working on the basis that it could be another very severe winter. Keith Brown did a sterling job last year and he is well prepared for this year. He has taken the lead on resilience preparation and we will be publishing the details of that at the earliest opportunity.

Jackson Carlaw: Will that be ahead of the proposed debate?

Alex Neil: We have not fixed on an exact date because we still have some issues to resolve and co-ordinate with our friends in London. However, we will make available all the information that we have and that Parliament should have about our preparations for winter resilience. There is no point in trying to hide the information because we need the co-operation of all stakeholders in making the resilience plan work.

Jackson Carlaw: I agree. The lesson of last winter was that Scotland really does expect the Parliament to be prepared.

Alex Neil: Absolutely.

Neil Findlay: I am very proud to say that I have never met Mr Hammond and I have no desire to do so. I thought that I would declare that as other people are declaring their famous friends.

Jackson Carlaw: I am disappointed to hear that you have no ambition for Government, Neil.

The Convener: Time is pressing. We do not need to hear these things.

Adam Ingram: I have a couple of quick items for information, cabinet secretary. When will the results of the Scottish road maintenance review be published?

Alex Neil: Next month.

Adam Ingram: And did I hear correctly that the new infrastructure investment plan will be published next month as well?

Alex Neil: That is the intention, yes.

Adam Ingram: Very good. I also commend you for the commitment that you made earlier to improve transparency in relation to Government-supported projects—ensuring that the pipeline of projects is visible, in order to allow businesses to plan and to prepare bids.

There are other good reasons for having transparency—it can benefit communities and wider developments, for example. I have been concerned about the apparent disappearance of some projects into the bowels of Transport Scotland, and I can think of one in particular in my constituency. You will be familiar with the upgrade of the A77 at the Bogend toll. The project went through all the statutory processes and we were told that work would be starting this spring. That has not happened, and we are not receiving any feedback on when it is likely to happen. Will you undertake to make that information available to us, in line with your commitment to improve transparency?

Alex Neil: Do you not want to mention the Maybole bypass as well?

Adam Ingram: That one too, yes. We will come on to that one.

Alex Neil: The project that you refer to is one of a number of shovel-ready projects that, had we the money, we would start now. However, we cannot suffer a 36 per cent reduction in our capital allocation without some consequences, so the timing of some projects—even shovel-ready projects—has slipped. The severe cut in our budget was initiated by Alistair Darling and has been endorsed by George Osborne.

Projects of a certain size are not appropriate for NPD-type funding. NPD is really for bigger, strategic projects at Scotland level; NPD would not work for projects below £30 million or so. As money becomes available, we will be giving priority to shovel-ready projects, for two reasons. First, they have been through the process and are clearly highly desirable in their own right for the local community. Obviously I am aware, Mr Ingram, of the junction that you are talking about, and I know about the dangers and the accident rate. Secondly, if we had the money, the shovel-ready projects—and other projects in the pipeline that we could make shovel ready very quickly—would help in seeing us through this difficult economic period. As money becomes available, we will be keen to get projects moving.

In the infrastructure investment plan and the refresh of the strategic transport programme, I want to show people the pipeline of projects and to give them an indication, as money becomes available, of when those projects will happen. If we had borrowing powers sooner than 2015-16, and if we assume that Mr Swinney would agree to give me a share of the capital spending that could be funded using borrowing powers, a high priority for me would be the shovel-ready projects that Transport Scotland is ready to roll with.

Adam Ingram: If the overall aim is to increase economic growth, priority ought to be given to shovel-ready projects and to getting things moving as quickly as possible.

Alex Neil: I agree, but some shovel-ready projects have been planned and have been waiting for quite a while. We therefore have to consider the pipeline; as money becomes available, we will move along the pipeline.

Adam Ingram: What are the chances of money becoming available? One of the things that we are doing is transferring cash from resource budgets to capital budgets. Will you use some of that money to make progress with the kinds of project that I am talking about?

Alex Neil: In planning the CSR for the next three years, we have identified the projects that should and will be completed in the next three years. Some of those have been publicly announced. For example, on the A82 we have given a commitment that Pulpit Rock and the Crianlarich bypass will be done by 2015-16. For various reasons we have not announced some of the projects yet, but we will announce them. In terms of the infrastructure investment plan and the refresh of the strategic transport programme, I am keen to give members and the community in Scotland as much visibility as possible on what we have in the pipeline.

Remember that, as the chief economic adviser to the Scottish Government pointed out a few months ago, it will be 16 years before the Scottish Government has the same level of budget in real terms as we had last year. We have the pipeline and, as money becomes available, we want to get projects going, starting with shovel-ready projects. We are very keen to get them going, but the issue is getting the money to do so.

Adam Ingram: How flexible can you be in that regard? If you have committed money to projects, which might, for example, suffer delays, can money be switched to shovel-ready projects?

Alex Neil: The only significant project that has really suffered a delay, which is out of our hands—it is because of how the courts have operated—is the Aberdeen western peripheral route. I hope that we will be out of court soon, so that we can get that project moving.

None of the projects that we have identified in the CSR should suffer any delay, because they are all shovel ready.

Adam Ingram: When will the list of projects be published?

Alex Neil: The infrastructure investment plan will be published next month, and the plan is to publish the refresh of the strategic transport programme early in the new year.

I understand the frustration. Clearly, every member—it is the same for me in the area that I represent—can identify projects, particularly road projects, in their area that are vital for either road safety reasons or economic development reasons, or both. However, when you suffer a 36 per cent cut in your capital spend, there is a limit to what you can do.

Jackson Carlaw: I will try to be brief.

I think that that comment is slightly disingenuous. In the full knowledge of the capital expenditure reductions that were coming, the Government was prepared to meet the full cost of the Forth crossing replacement development. There is now a reduction of some £250 million in the anticipated cost of that development but the Government has made the political choice to divert that £250 million away from further investment in roads and transport infrastructure to other projects. Has your department not lost out, in the sense that a sum that you believed that you could fund, even in the knowledge of the reduced overall capital budget, is now being taken away from investment in transport?

Money is becoming available. Transport Scotland confirmed to the committee that the inflationary level that it has applied to the Forth crossing project—8 per cent—could well prove to be considerably higher than the anticipated rate of inflation, so that project could cost less again. Is that not evidence that money is becoming available for projects, as has just been identified, but the Government has made a political choice to move a £250 million notional saving out of roads investment and spend it elsewhere?

Alex Neil: My department has not lost out, because most of the funds that you say the money has been diverted to are also within my bailiwick, so the department has not lost out.

Jackson Carlaw: Some of the funds.

Alex Neil: We have to look at the priorities across the Government.

Jackson Carlaw: Indeed.

Alex Neil: We are making a statement to Parliament on fuel poverty this afternoon. As a result of the unforeseen huge increase in energy prices, 770,000 households are now living in fuel poverty in Scotland. As a result of the price increases announced in the last two or three weeks alone, the figure will increase by another 170,000. That is an example of a priority that we are having to cope with.

The VAT increase to 20 per cent has had a knock-on effect on the cost of certain services. For example, the NHS's VAT bill has risen very substantially. There are many external factors over which we have no direct control.

The principle is clear: we are operating towards our national priorities. Those include transport, housing, water and other areas such as superfast broadband, which I hope you will cover so that Aileen McKechnie can talk to the committee. However, our priorities would be much easier to achieve if our capital budget had not been sliced by 36 per cent.

11:30

The Convener: I think that Adam Ingram wants to ask a question on broadband.

Adam Ingram: The cabinet secretary has just invited us to ask questions on broadband, so I will do so.

What progress has been made on the Scottish Government's digital strategy? The Government recently announced details of the next generation digital fund as part of the spending review. What will that entail?

Alex Neil: On the finances, the UK Government has confirmed—as Adam Ingram knows—that our share of the £530 million of television licence money that is being set aside to fund superfast broadband throughout the UK is just over £68 million. That can be compared with the £58 million that has been allocated to Wales, which has half the population and half the land area that we have to cover. I have made it clear to Jeremy Hunt, the Secretary of State for Culture, Olympics, Media and Sport, that we are very disappointed at Scotland's allocation, particularly given our geography and the challenges that we face.

Of that £530 million, £100 million remained unallocated, at least according to the public announcements. I met Jeremy Hunt in London last week and asked him if it was possible for Scotland to get a share of that £100 million. He replied that the UK Government has allocated the £100 million, but has not yet announced where the money will go. The indications are that it is not for rural broadband, and that none of it is coming to Scotland. We remain very disappointed at the allocation.

In the CSR we set aside £50 million of our own money and up to £25 million of European structural fund money for superfast broadband. If we add our money, which is £75 million, to the UK Government money, which is £68 million, we have £143 million.

The other problem is that all along the department in London has absolutely refused to give us the information that we need on how it has modelled the allocation and the market data that it has received. It has now—only in the past two weeks—given us some information, but we are still being denied the additional information that we believe we need. We are having to finalise our strategy against a background of inadequate funding and information.

Having said that, we are determined to move ahead with our digital roll-out. Highlands and Islands Enterprise, which has responsibility for leading the project in that area, will connect up 50 communities, and that is at the procurement stage already. I had a very successful meeting last week with the south of Scotland partnership, which covers Dumfries and Galloway and the Borders area. The partnership is well prepared and ready to roll, and I have given a commitment that we will provide its allocation as soon as possible.

We intend to publish our strategy for rolling out the funding for the whole of Scotland in the next few weeks. I am determined that the way in which we manage the funding should not involve a supplier and contractor relationship. We need to work with all the stakeholders in the public and private sectors, but when we tender for the work to lay fibre-optic cables or whatever, I want the contracts to involve some kind of payback and community benefit.

There are more than 50-odd broadband contracts across the public sector in Scotland at present, but as far as I can see—and as the McClelland report indicated—we are not pooling the resources to get a greater community benefit and a bigger payback to the Scottish economy from those who win the contracts, which is what we want to do.

Adam Ingram: So you are going to lay out your strategy in the next few weeks.

Alex Neil: Yes.

Adam Ingram: And will that include inviting bids from consortia of, say, local authorities? You mentioned the pathfinders in the south of Scotland and the Highlands and Islands. Are you going to encourage local authorities to come together and bid for the funds?

Alex Neil: Undoubtedly, we need a bottom-up rather than a top-down approach. However, we must also have a national framework to govern how we operate. I am very keen for any proposals in respect of our next generation digital fund to respond to local demand, local needs, local plans and local strategies, but to do so within a national framework to ensure that we move together as a nation.

Adam Ingram: My understanding is that infrastructure providers are rolling out their own investment across the country but are focusing on what they determine to be commercially viable. The sooner the public sector can come in and ask those providers to match funding or whatever, the sooner we can reach the targets. Is that your understanding of the situation?

Alex Neil: Some local authorities are able to put in more funding than others. For example, the local authorities in the south of Scotland have made a fairly significant financial contribution and that will have to be taken cognisance of in deciding how things will be rolled out. When private sector contractors—those who, as it were, lay the cables—start to make a profit or get revenue from public sector investment, there should be some payback to the taxpayer. Ideally, I would like to have a revolving fund to ensure that as money is paid back we can keep reinvesting it and stay ahead of the curve. Given the critical importance of superfast broadband to every business sector, every area and every individual in Scotland, we have to maximise investment.

Moreover, we must ensure that our investment strategy is not dependent on only one or two specific technologies. After all, technologies are changing so rapidly that such an approach could very quickly become dated. In a sense, then, the strategy must be technology-neutral.

Aileen, do you have anything to add?

Aileen McKechnie (Scottish Government): We are very keen to encourage the market to go where it should go, because it is commercially viable for it to do so. However, we want to work alongside it. We have learned certain lessons from the roll-out of current generation broadband, in which a kind of outside-in approach was taken: the market rolled things out and then the Government came in after the event. We are keen to reverse that, which is why we are working so closely on proposals with local authorities and other partnerships in the Highlands and Islands, the south of Scotland and colleagues in Aberdeenshire, Fife and other areas of Scotland. We will not intervene in places where the market and the private sector will deliver, but we will work alongside them to augment our own investments. We are seeking to take that collaborative approach across Scotland, but it is complicated. After all, our aspiration is for something that is locally, regionally and nationally effective, and it takes a bit of time to get that right.

Alex Neil: Am I right in thinking that last week BT announced that it was going to invest in Cumnock?

Adam Ingram: I think that it was Maybole, Alex.

The Convener: Let us not get too parochial. We will revisit these matters in our broadband inquiry, and I note that time is marching on. Do you have a quick question, Neil?

Neil Findlay: I have a question about Scottish Water, which I know is not part of our agenda but—

The Convener: Please be very quick.

Neil Findlay: At our last meeting, we took evidence from Scottish Water. The draft budget acknowledges that, with the budget cuts, "there are risks" to that organisation—which I have to say is pretty revolutionary language for this Government. Can you elaborate?

Alex Neil: Scottish Water has a very substantial investment programme and between now and the end of the current regulatory cycle in 2014 about another £0.5 billion will be invested. Some of that money has been generated from Scottish Water's own reserves—particularly this year and next. Over the piece, those reserves have become very substantial, so the organisation has—sensibly, in my view—agreed to contribute to funding the investment programme. Nevertheless, the Scottish Government's commitment is still huge.

I point out that the risk is not high but is just the normal risk that attaches to any investment programme. However, the important thing is that we have asked the Chancellor of the Exchequer to allow Scottish Water to fund its entire investment programme either through the bond market or through borrowing. That would be the logical thing to do; indeed, any modern public corporation should be able to fund its investment programme in that way. We were promised an answer from the chancellor this month and, if it happens, it will not only be very good news for Scottish Water but free up resources that we are committing to the organisation, which could then be used for shovel-ready projects in transport.

Neil Findlay: Can I just pursue that, convener?

The Convener: I have to stop you there, Neil, because we are running short of time. You can bring the issue back up when we question the cabinet secretary in great detail on the budget.

That concludes our evidence session with the cabinet secretary. I thank the witnesses for their evidence and suggest that we have a short comfort break of five minutes or less before we move on to the rest of the agenda. The way things are going, we are not going to be finished until 1 o'clock.

11:42

Meeting suspended.

11:48

On resuming—

Draft Budget 2012-13 and Spending Review 2011

The Convener: In item 5 on our agenda, we will hear about the Government's draft budget for 2012-13 and the spending review from academics and experts in transport infrastructure. I welcome our witnesses: Professor Tom Rye is from the school of engineering and the built environment at the Napier University transport research institute, David Connolly is the director of technical development at MVA Consultancy, and Professor Iain Docherty is a professor in public policy and governance at the University of Glasgow. Gentlemen, I apologise for keeping you waiting.

I will begin the questioning. As we have heard, the budget has prioritised a number of transport projects to help to kick-start the economy. Do you favour that approach? Given the current financial constraints, are the balance and tone of the transport spending plans about right?

David Connolly (MVA Consultancy): The plans would be slightly short-termist if they were to boost the economy only by creating construction jobs. If the aim is to boost the economy in the long term, I am all in favour of that, so a project such as the Forth replacement crossing probably comes into that category. However, I would be cautious about approaches that simply generate jobs in construction. Yes—they will boost the economy, but it is perhaps not the best use of the investment.

Overall, the emphasis in the budget on the economy is obviously sensible, and the much higher emphasis being given to the low-carbon economy in particular is also sensible. The one place in which things are perhaps slightly weak is in the consideration of the impact and importance of freight to the Scottish economy. Such consideration seems almost to be missing from the budget and its supporting background documents.

The Convener: So, in the long-term strategic direction, you would put more emphasis on freight. Are there other areas that you would emphasise?

David Connolly: I would put the emphasis on freight and on links to places beyond Scotland, because they would help the Scottish economy. Moving things about within Scotland is important, but not as important as considering the links to England and English ports by air and sea, or as important as moving freight to Europe and beyond. The budget is a little bit inward-focused: it should consider schemes for links beyond Scotland, as well as just faster and better links within Scotland. As I say, not enough consideration seems to have been given to the needs of freight and to the benefits that improved freight will bring to the most remote parts of Scotland.

Professor Tom Rye (Edinburgh Napier University): I would like to take a slightly different line. It is extremely difficult to find empirical evidence that investment in transport infrastructure—especially large-scale transport infrastructure—grows the overall economy. You can find a lot of evidence that investing in specific pieces of transport infrastructure will move economic activity around it, but trying to find evidence that it will grow the economy overall is really difficult.

A Norwegian study considered 105 different transport infrastructure investments in Norway between 1990 and 2005, and it was unable to find any impact of those investments on the growth of the Norwegian economy as a whole.

Also, a study of the M25 was carried out by the very respected Professor Banister of the University of Oxford. The M25 was a massive transport investment project but, again, it was very difficult to find that it generated additional economic growth within the UK. It certainly moved economic activity around. For example, it led to the growth of very large car-based shopping centres in Essex and Kent—but that was at the expense of shopping elsewhere.

What about the Skye bridge and shopping? Has more shopping been done as a result of the building of the Skye bridge? I think not. People have simply decided to shop in different places instead.

The EGIP—the Edinburgh-Glasgow improvement programme—will cut rail journey times between Edinburgh and Glasgow by about 10 minutes. I have yet to find convincing empirical evidence that that kind of reduction will really lead to an increase in the size of the Scottish economy. It cuts a little bit off the journey time between Edinburgh and Glasgow, but how will that lead to generation of jobs? Transport Scotland might say that it will lead to greater agglomeration economies between Edinburgh and Glasgow. However, new work by the person who, if you like, invented agglomeration economics—Dan Graham from Imperial College London—has cast doubt on his own original work, and therefore on the assertion that agglomeration economies will come up.

All in all, I have my doubts about the impacts of the schemes on wider economic developments because it is difficult to find empirical evidence that other such investments have led to additional economic growth. We must also consider the direct impact of investments on jobs. Very little work has been done on that, and I have had to resort to an Austrian journal of transport economics to find any information. What it said seemed to me to be relatively intuitively sensible, which is that smaller and more local projects in transport investment generate more jobs per pound spent. They also reduce leakage from the local economy.

Think about the Edinburgh trams, which is not the most popular of investments. Where were the trams built? Spain. Where does the contractor come from? Germany. We can also make a fairly accurate guess that the steel in the Forth replacement crossing is unlikely to be made in Scotland.

With smaller, more local projects, it is easier for local companies to compete, and the labour to carry out the projects is available. Such projects can also be delivered in small tranches, which means that you do not get very strong peaks in demand for specialist labour, which drives up the cost of very large infrastructure projects. On those two counts, we have to be sceptical about the economic development impact of the infrastructure investments.

You might ask me—I will pre-empt a question, if I may—what I would spend the money on instead. I have said that, in part, the money should be spent on local transport infrastructure projects, but despite my being a transport professor I might suggest moving the money out of transport as a whole and spending it elsewhere, for example on combating fuel poverty, because such investment can be delivered in small tranches, uses local labour, is labour intensive and is good for social inclusion and climate change.

Professor Iain Docherty (University of Glasgow): I have not been left with much to say after all that, although I ferociously agree with most of what has just been said.

As David Banister from the University of Oxford has said, it is almost impossible to find any direct empirical evidence that investment in transport infrastructure per se increases economic growth or improves the overall performance of the economy. We would all intuitively like that to be the case but, when you try to find evidence for it, it is almost impossible to find, although even David Banister ends most of his statements on the subject with the slight caveat that places that have better infrastructure seem to be more competitive and to do better than other economies. It is almost impossible to find the direct link between the investment and the outcome.

Tom Rye cited various studies; I will do the same. The Eddington independent transport study, which is three or four years old now, made fairly similar comments about small projects being the ones that give the best bang for the buck. There is another slight caveat, which is that there is a sweet spot at which larger projects of about £1 billion, particularly in cities, seem to generate agglomeration benefits although—as you have heard—the scale of that is under debate.

The simple answer to the question is no; the transport spend budget is not guaranteed to improve our economic performance at all, but it never is.

The Convener: We heard the cabinet secretary say that our emphasis on capital investment has helped us to have a lower unemployment rate and a higher employment rate. Do you disagree with that contention in the short term?

Professor Docherty: Colleagues have mentioned two other issues, one of which is the timing of the benefits from the investment. We will clearly create jobs while we construct projects. Those of us who still think that Keynes has something to say would agree with the value of capital investment per se; it is certainly a better approach to spending public money than is supporting yet more consumption of overseas goods, which is what successive UK Governments have tried to do over the past few years in response to the recession. Is the switch from revenue to capital a good thing in that sense? Yes.

Transport Scotland has done limited work on employment generation from transport projects. Notwithstanding the analysis that Tom Rye put forward about the source of some of the materials for larger projects or where the consortiums come from, we tend to generate good local employment opportunities if the projects are managed carefully, but the devil is always in the detail. It is about the quality of project management and sometimes how the contracts are written because that can ensure local involvement. I heard the cabinet secretary point to that in the earlier evidence.

It depends on your objectives; if you want to create employment, there are many ways to do that and investing in transport infrastructure is by no means a bad one. If, however, you expect such investment to be the magic bullet that will transform economic performance, I am afraid that it will not do that.

The Convener: Where do you think the committee should focus its scrutiny over the next few months? What specific lines of inquiry should we pursue with the cabinet secretary?

Professor Docherty: It is worth making the general statement near the start of the evidence session that, if we examine how well transport has done in the budget, we see that it has emerged remarkably unscathed from a very negative public spending environment. One reason for that is the belief that—at least, in the short to medium term—spending on transport generates employment. It is, as I said, much better to be left, after the expenditure, with better infrastructure than it is just to have had more consumption of services, so that is an entirely sensible approach.

As transport budgets are more or less flat in the current environment, the question at the front of my mind is whether we are getting value for money. Will the industry breathe a huge sigh of relief and say, “It could have been a lot worse”, and get on with being relatively inefficient without addressing some of its long-term internal problems?

12:00

In the budget headings, the railway industry is a classic example. It costs us so much more than it did before fragmentation and privatisation for relatively modest increases in passenger movement and capacity. We must look carefully at value for money under that heading. My colleagues and I have raised at other committees the question of whether we get value for money from the concessionary fares budget. Is that not inconsiderable amount of money targeted at the right people—those who most need assistance in travelling?

We could have a similar discussion about the roads budget, in respect of whether we are funding the right scale of project or whether we should move towards smaller shovel-ready projects, such as junction improvements, that tend to make a bigger difference in safety and journey times for the local communities. That is something that the Eddington transport study strongly emphasised to the Treasury a few years ago.

My real fear is that there is a business-as-usual attitude in the industry. We must continue to press it on whether it is delivering value for the substantial public investment that it has been lucky enough to receive in the current budget round.

Professor Rye: I agree with Iain Docherty’s points. The committee might want to pursue in its inquiries over the next few months and years the idea of commissioning some research on the economic development impacts of the transport investments that are going ahead. As I have said, there is a shortage of empirical evidence.

It was said that a large number of jobs would be generated by the M74 completion, but I fear that the chance may have been missed to carry out some good research on whether that has happened. If the empirical evidence can be gathered, it would support the line that the Government is currently taking in its draft budget and allow a better response to some of the points that Iain Docherty and I have made. An additional inquiry of that nature is a key point.

David Connolly: I agree with the point about concessionary travel. A lot of money is spent on paying people who are economically active, and who are perfectly able to walk, cycle or pay for a bus, to sail about for free. Even people who are not economically active take the bus, because it is free, for journeys that they could walk. The committee should examine that. I understand the political risks, but that money is being wasted and is not doing anything useful.

There is not enough emphasis on walking and cycling as preventative activities that bring health and carbon benefits. You should consider measures to promote good low-carbon behaviour and reward it, rather than finding ways to penalise other behaviour. You should target the decision to buy a car and to use it.

Tourism boosts the economy, and information on sustainable transport can be provided for tourists. Sometimes they do not come at all, or they get here and do not make full use of what Scotland can offer. I commend the work of the Highlands and Islands strategic transport partnership in addressing the issue of tourist travel information rather than just assuming that tourists can use the ordinary journey planner that locals use.

In general, you should ask whether each scheme that you fund will increase car use, as it will effectively take 10 years of 10 per cent savings and efficiencies to offset the creation of extra car trips. Anything—such as a road scheme—that increases car use and, therefore, greenhouse gases should be questioned. The point is to get rid of the congestion without letting it fill back up again. We need to lock in the benefits by ensuring that such schemes involve a clear understanding of how uncongested conditions will be maintained over time.

Jamie Hepburn: Iain Docherty answered my first question before I even asked it, which was very prescient of him. I will ask my question, and he can tell me whether I have interpreted what he said correctly. It was about the money that is invested in the rail sector through the transport budget. There are concerns about that, which Iain Docherty expressed. Are there still concerns, given what is presented in the draft budget? You can probably give a yes or no answer.

Professor Docherty: It is worth reiterating that the rail industry has begun to address the substantive and diverse calls to improve its value for money. I am sure that committee members will be aware of the McNulty report on rail value for money that the Department for Transport recently published—

Jamie Hepburn: You are veering into my next question.

Professor Docherty: That report said in round terms that we are still spending 30 per cent too much on our railway in comparison with European benchmark countries. That is a lot of money from the annual budget that we could save. We must ask whether we are content to let the industry continue to be more or less 30 per cent inefficient over the lifetime of the budget, and consider what else we could spend the money on.

It is a substantial opportunity cost, not just for the transport budget but—as colleagues have said—across the Government's budget as a whole. I cannot emphasise strongly enough that we must consider carefully whether the rail industry's current structure provides us with value for money. We spend more public money on the railways now than we have ever spent.

Jamie Hepburn: I do not think that you heard me just then say that you were veering into my next question, which was very prescient of you. Do Professor Docherty's colleagues agree with that perspective?

Professor Rye: Completely.

David Connolly: Yes. In terms of the number of passengers who use it daily and the number of passenger kilometres, the system is massively overfunded by the Scottish Government and taxpayers' money. The funding is out of step with use, which affects the impact that it has and the benefits that the sector can bring to the economy and elsewhere.

Professor Rye: We do not need to restrict our consideration of value for money to the rail sector—it is important in other sectors, including civil engineering.

Jamie Hepburn: Notwithstanding that remark, I will restrict our consideration to rail.

Iain Docherty referred to the McNulty report, which was mentioned in our previous evidence session with the cabinet secretary. I know that the report has not met with universal approval across the industry. The initial industry plan was presented last week; it is driven in part by the need to get better value for money. What opportunities do you gentlemen believe exist to get better value for money in the rail sector? Be as bold as you want to be.

Professor Docherty: I am on record several times as saying that I do not think that the current structure of the railway industry is appropriate. In round terms, we spend 400 per cent as much as we used to before privatisation, and we have achieved 40 per cent growth in passenger and freight capacity on the railways. That is not the definition of productivity in my book. We must get the amount of public money that we spend on the railways down substantially. We are beginning to do that, and we must give the rail industry credit for taking up that challenge. We have also begun to make sensible investment decisions.

I will mention one decision in a Scottish context, which was raised earlier with the cabinet secretary. For more than the first decade of privatisation, there was an incentive not to invest in electrification of the network, because it would make the job of the companies that financed and owned the rolling stock more complicated. That was a perverse incentive not to invest in making the network more reliable, cheaper to run in the long term and better performing environmentally. That is an example of something that we have begun to get right.

There are still too many interfaces between too many companies and organisations on the railway, and we must do away with those. I do not see how we can achieve McNulty's target of a 30-plus per cent reduction in public support for the industry without addressing the root cause of the problem, which is the industry's structure.

Neil Findlay: If there is the potential for a 30 per cent saving, what are the practicalities of going back to a form—I will not say which form—of ownership or structure in the industry that works? Are there practical difficulties in terms of how that would be achieved?

Professor Docherty: The biggest practical difficulty is that that power is currently reserved. It would be for Whitehall to determine whether it wished to let Scotland go down that track. The UK Government has already become nervous about calls from the English regions—particularly Merseyside, which has a small well-run integrated local network—to move further outside the Great Britain-wide rail industry.

I am not saying that reform can be achieved or would produce returns overnight. There are costs and benefits with each alternative model of industry structure that we could come up with. However, after approaching 20 years of the current structure and the sheer amount of public cash that it continues to require every year to subsidise the network, we need to think again.

Neil Findlay: Are there any franchising issues that we could resolve, even if we do not have the overall powers to do the other stuff that we want to do?

Professor Docherty: The biggest challenge facing the Scottish Government in the current franchising system is the length of the franchise. There has been a lot of debate in Scotland, and in the Great Britain system as a whole, about whether longer franchises would encourage train operating companies to invest more and to do so more efficiently and cheaply.

The industry calls for franchise lengths of up to 25 years. My worry with that is that, if the financial crisis has taught us anything, it is that trying to plan over 25 years is a nonsense. Given the sheer amount of money that we are talking about for railway investment and the life of the assets—a new set of trains is expected to run for 40 years, for example—locking ourselves into contracts for that length of time could prove to be counterproductive.

Jamie Hepburn: Does that go back to your point that the franchising system itself could be called into question as part of the overall structure?

Professor Docherty: Yes.

Malcolm Chisholm: I want to move on to some important issues that are of general relevance for our consideration of the budget, although I would like to thank you for your opening statements, which were probably the most interesting comments I have ever heard about transport, and were certainly music to my ears, as I have been arguing for years that we should be shifting money from transport into housing—others might not agree with that.

There has been some comment about the clarity and level of detail in the budget. How clear are the draft spending plans in the budget and is there a need for more transparency? As you went through the documents, did you feel that you understood where all the money was being spent or were you crying out for more information and transparency?

David Connolly: The information is clear, but there appears to be a mismatch between the fine words about what we as a nation are going to do and the fact that that particular budget line is being slashed by 46 per cent, for example. If someone read those words but did not see the numbers, they would think that everything was fine, but there are some quite surprising cuts in some quite small lines in the budget. It might be that those cuts are being made because the money is coming from other sources or we are tapping into other funds, but there are a number of cases in which the words describe a fine set of aspirations although the budget line has been hacked by 50 per cent or 60 per cent or 40 per cent. What was being cut was not being highlighted.

Professor Rye: I found certain aspects around sustainable transport difficult to unravel. In particular, what is happening to the cycling, walking and safer streets fund is not clear. I apologise for having to refer to my notes. What is being covered in transport by the fund that is a subset of the Scottish sustainable futures fund, and how much is going on electric vehicles, cycling or walking, for example? That was not particularly clear to me in my reading of the budget.

Malcolm Chisholm: There is an issue, because we only get figures to level 3 and I think that you are talking about level 4 figures. That is an on-going issue that committees have with the budget process.

Professor Docherty: Two things struck me when I was looking at the numbers. One of them was that I got a sense of business as usual in the numbers compared with spending priorities in the last cycles. The other issue is that there are some headings under which the numbers appear to be very finely calculated for each year, and there are often quite significant changes where projects have been planned and thought about very carefully; and then there are others where the number is just static, and it is a nice round number. For example, there is £10 million under British Waterways for each year. That strikes me as saying that, once we get down to that level of small project—rather than the big infrastructure projects at which people like to cut ribbons—there is much less creative thinking about what we should be doing with those budget headings, and that some of them are an afterthought in the system more generally.

A look through budget document headings on active travel—projects on walking, cycling and waterways; not the big and exciting projects like roads and railways—tells me that there is not much thinking inside the machinery of Government about what we should be doing to maximise investment in those areas, where the empirical evidence tells us that we could and should be doing a lot, as you have heard.

12:15

Malcolm Chisholm: That was helpful, and we will ask some related questions later.

The general issue that all committees are considering as part of the budget process is preventative spending. Some people think that it is not quite so relevant to the spending lines that we are considering, but I do not think that that is entirely true. To what extent are elements of the transport budget consistent with a focus on preventative spending? Should the budget be different or does it contain a lot of implicit preventative measures?

David Connolly: The budget does not draw out the benefits of increasing walking and cycling, particularly among young people, and establishing a culture of walking and cycling first and then using public transport. That is the biggest preventative investment that could be made, but the snag is that it will take time before the effects show up. Anything that increases walking and cycling should be encouraged, to prevent future ill health, obesity and other downsides that are related to lack of exercise. The benefits of such an approach are established.

One of the submissions to the committee is a report that our consultancy did for British Waterways about the benefits of investment in the canal towpath network in generating more walking and cycling. Any measure that encourages people of all ages to do more walking and cycling—and encourages young people, in particular, to put off the purchase of their first car—is a preventative measure, in that it means that there will be less spending on ill health in the future.

Professor Rye: I concur with that. The funding for sustainable transport, cycling and walking is currently a very small proportion of the budget and will be an even smaller proportion if the draft budget is adopted. I take slight issue with Iain Docherty’s suggestion that this is a business-as-usual budget for those sectors. For cycling, a 25 per cent cut—that is the most optimistic projection—is not business as usual. Indeed, a 15 per cent real-terms increase for trunk roads is not business as usual.

On prevention, when I appeared before the Transport, Infrastructure and Climate Change Committee in the previous session of the Parliament I talked about the balance between trunk roads maintenance and local roads maintenance. The issue has not been fully addressed, but it should be, because there are grounds for believing that not enough money is being spent on local roads maintenance and too much is being spent on trunk roads maintenance, given that most trips are short and use local roads rather than trunk roads. Have the local authorities got enough money to do their preventative local roads maintenance? Perhaps they need more and Transport Scotland needs a bit less.

Professor Docherty: I think that we agree, because my point was that the recent increases in the cycling budget were a departure from business as usual, whereas the draft budget shows a reversion to the status quo ante.

I think that I said to the committee’s predecessor committee that walking is perhaps our most important transport mode, because we access just about everything, including other means of transport, by walking. The streets are where our community life exists and develops. They are our public places, where we meet one another. However, the quality of our streetscape is a national disgrace and certainly discourages people from using not just local services but public transport modes, which are made difficult to access by the quality of the pedestrian environment.

I very much recommend that the committee consider what Transport for London has done and is doing on the quality of the streetscape in London and how that is critically important to its wider policies on active and sustainable travel and the preventative health agenda. The agenda has historically tended to be focused on cycling, but perhaps it should focus on walking. TFL is doing fabulous work on public spaces in London and how they work to encourage people to walk around, which also encourages use of the public transport network. We have much to learn from TFL, as well as from the usual continental European examples, which are legion, as we know.

Malcolm Chisholm: The previous two answers remind us that, although we are considering the Scottish budget, what happens in local authority budgets will be relevant to the issues. That is sometimes a problem, because that is even less transparent than the budget documents.

David Connolly: We should remember that people who are walking about might well be tourists who will recommend Scotland to their friends, who will return or who will consider investing in Scotland. If they are shaken about in the back of taxis because of the potholes, as in some sort of third-world nation, that does not set a good example. As well as the impact on our residents’ health and general wellbeing, another impact comes through the link to tourists’ experience.

I return to the question about uncertainty or a lack of clarity. The future of regional transport partnerships is mentioned rather grudgingly in chapter 16, on local authorities, which says that funding for regional transport partnerships is “tbc”—to be confirmed. I suggest that support should continue to be given to transport specialists who look at areas above local authority areas and particularly at city regions, where the issues go beyond a single local authority’s perspective. I also commend the Highlands and Islands transport partnership, with its ability to consider wider issues across the whole Highlands and Islands, as worthy of members’ support.

Gordon MacDonald: We have touched on concessionary fares, but can we consider them in more detail? Given that concessionary fares expenditure is set to rise and the bus service operators grant, which is based on operators’ mileage, is set to fall, is the draft budget’s provision for bus services equitable? Will that disadvantage some groups or localities?

David Connolly: As long as bus operators are not funded to run empty buses, the system is good. Conversely, if bus operators are funded to run empty buses, that should be discouraged.

Operators should be encouraged and funded on the basis of the number of passenger kilometres.

Money is being spent on carrying people who could walk. Stopping that should mean no net loss to the bus operator, if slightly fewer people are on buses but no less net subsidy is paid to the bus operator—that is the no net gain argument. Other than the potential political situation, which I am sure that members are better able to consider than I am, the operator and the travelling public would experience no net harm from a nominal fee to discourage what I consider to be the ridiculous use of buses to travel the distance of one stop, which people were happy to walk or to pay a fare for before concessionary travel was introduced.

Professor Rye: The distribution of funding between bus service support and concessionary fares support is definitely inequitable. Concessionary fares funding is not supposed to be a subsidy to bus companies, but the evidence that it is a subsidy is irrefutable. If bus companies are to be subsidised, that can be done in much more economically efficient ways.

As David Connolly said, if we deliver subsidies to passengers, the danger is that we deliver the subsidy to people who do not necessarily need it. Work by transport economists who are far better than me has shown that, when the benefit cost ratio of delivering subsidy via concessionary fares is compared with that of delivering it via a quality contract model, the quality contract wins in economic terms and maximises welfare to the public. However, we are where we are with bus regulation.

Professor Docherty: I, too, will adopt the customary recognition of the political sensitivities of any comments on the issue. If the budget is supposed to be about economic recovery and if we want to subsidise people to travel more, we must make it easier for people to travel to jobs, because that is how we grow the economy and achieve social inclusion and all the benefits that employment brings. However, the concessionary fares structure does not achieve that, because it focuses on a particular group, many of whose members are not travelling to work—and those who are can probably afford to pay to travel.

The scheme does not address those who are most likely to seek work or for whom a job could make the biggest difference to them, their households or their communities, so the arrangements are clearly inequitable to that extent. Of course, a subsidised or concessionary fare on a bus is also of use only if a bus is available to travel on, so serious geographical equity issues exist.

Those criticisms of the scheme are well known. The fact that, even in this budget, we have not yet come forward with proposals to address the critiques tells us quite a lot about the political importance of that demographic.

I reiterate colleagues' points about the importance of and economic return on subsidy for quality bus services in general. The quality of many of our bus services and the infrastructure—the local streets and roads that they run along—is by no means good, particularly in comparison with London, where there has been lots of investment under TFL's management since 2000 in the quality of bus services. That has cost TFL a lot of money, but if we go to London and travel around by bus, we see that we get what we pay for. The same applies to the European cities with whom we compete for tourism and inward investment.

There is an argument that we focus too much on the railways. If we look at the figures and consider how much railway investment returns for us versus how much bus investment returns, we see that we can make some significant, high-value returns on investment if we focus on buses more than we currently do.

Gordon MacDonald: You rightly said that the concessionary scheme is highly popular among the public, but bearing it in mind that we spend about £180 million a year on this subsidy to the bus industry, is it sustainable in the current economic climate? Is there any scope to save money on the management of the scheme or the validation of operators' claims?

Professor Docherty: Transport Scotland has done and is doing a lot of work on validation, and there will be savings from that. The Government faces a number of choices. It could change the eligibility criteria for the scheme, and in a sense the change to the retirement age presents an opportunity to do that over a number of years. It could cap the scheme. It could give people a notional amount that they can spend on bus fares or other transport or even other services for which the smart card would pay. That would immediately address some of the equity issues. Again, I and colleagues round the table have put forward evidence on that. We have to focus on whether we get value for money from the scheme, and we should be able to use the technology more to ensure that we are getting that value.

The per unit cost of the subsidy is still significantly higher in Scotland than it is in England. The DFT has achieved much more substantial savings. I cannot remember the precise numbers, but the ratio is significant. There are still plenty of reasons why the bus companies are able to claim substantial amounts of money that they might not be able to claim with different technology and a different approach to the scheme. I am sure there are efficiencies to be had.

David Connolly: Any cut should not be applied to students and young people, because they are the ones we wish to subsidise. They will probably walk for the shorter distances, so the short-trip issue is not as big for them, but the longer we can prevent them from thinking that they need a car, the better. In that way, they will establish a sensible approach to car use rather than thinking, first, that there is no bus and secondly that public transport is too expensive, which might lead them to buy a car because they think it is cheaper. If anything, we should increase the subsidy for young people's use of public transport via the concession. They should not be lumped in with any cuts that are considered. Instead, we should focus on the 60 to 65-year-old, possibly economically active population who are being subsidised to use the bus.

Professor Rye: In England, the reimbursement mechanism for the scheme is not uniform throughout the country. Different formulae are used in different areas to reflect the different bus markets in them. In Scotland, as I understand it, we still have a single national reimbursement mechanism. You might want to ask Mick Wilson from Transport Scotland about the degree to which it would be possible to have more local mechanisms for reimbursing operators in Scotland, which might allow some savings.

There should also be better documentation of evidence of additional costs—that is, the costs of having to provide additional capacity to carry the additional passengers who are generated by the scheme. That is always a point of debate between the operators and the reimbursement authority. It is difficult to document those costs, but if they can be properly documented, there might be scope for further savings.

12:30

Gordon MacDonald: The local schemes that existed prior to the introduction of the national scheme had individual reimbursement rates, exactly as you said. Do you feel that we should revisit that?

Professor Rye: I studied it at the time and recall that there were 17 or 18 different reimbursement schemes, which might be too many. However, it is curious that we now have one reimbursement mechanism for both urban and rural areas when it is well known from academic study that those are different markets with different characteristics and, therefore, different elasticities of demand. The reimbursement formula should take into account elasticities of demand, but it does not at the moment in Scotland.

Gordon MacDonald: Is there any way in which we can manage the burden of the concessionary fares scheme for the foreseeable future, bearing in mind how popular it is? You have talked about capping the scheme, raising the age of eligibility and introducing local reimbursement rates. Is there any other issue that we should consider?

Professor Rye: It might be worth undertaking some research to find out how concessionary passengers would react to the introduction of a small, flat fare that would price off some of the trips to which David Connolly referred—the very short walk substitution trips. That may prove politically unacceptable but, to my knowledge, it is not being investigated at the moment. I have previously undertaken research with concessionary passengers and I know that they would not all react badly to such an idea.

Gordon MacDonald: That existed in Edinburgh prior to the national scheme.

David Connolly: There is also, however, evidence of the demand that was created when the small, flat fare was taken away. It would have an impact on demand, but it would not have an impact on access to the shops, to social events, to jobs or to whatever the people who make those short trips require.

Professor Docherty: I would like to see some data and modelling of the impact of a cap. That information may already exist, but it has not made it into the public domain. I suspect that some research has been done. I would expect to find that a relatively small number of people are responsible for a relatively high number of journeys. Therefore, if the cap were pitched at the right level, it would have almost no effect on the social inclusion benefits that we seek to generate through the scheme.

Neil Findlay: Has an analysis been done of the cost and possible benefits of regulating the buses?

Professor Docherty: A number of small pieces of research have been undertaken, but they tend to focus on particular bus markets. You have heard that bus markets in different places are diverse. The greatest experiment has been in London, which retains a system that is very different from that which operates in the rest of Great Britain. The studies that I am aware of tell us that we get what we pay for. The bus companies are commercial organisations, and the services and networks that we have reflect that. They meet the needs of those markets that are commercially viable, which was the objective of the system that we have—it was simply to reduce the amount of public support for the bus industry. Bus deregulation was successful in doing that, and we must not forget that it achieved its stated aims.

There is some research that suggests that if, for policy reasons, we have a different set of aims around the integration of different bus routes, different bus companies and networks and different transport modes—if we want to make it easier for people to travel for particular reasons—more regulated models are more appropriate. The London model and, to a lesser extent, the Northern Ireland model are the ones that are cited, but they are not cheap—they cost a lot of money. The bus budget in London is of the order of £1 billion a year, so we are talking about substantial sums of money.

I am not aware of any up-to-date, rigorous research that has examined what the different potential models of industry organisation would mean in Scotland. I reinforce my colleagues' point that the impact of the different models would be very different in different parts of the country, especially in the cities. There is some research, but I am not sure that it is terribly relevant to our domestic circumstances.

Professor Rye: A number of English passenger transport executives have investigated in some detail the possibility of introducing quality contracts in their areas. They have developed business models and considered, for example, the levels of subsidy that would be required for different types of network. I am not familiar with those studies, but an organisation called the Passenger Transport Executive Group operates out of Leeds, and Pedro Abrantes, who works for the group, would probably be able to tell you about those studies and to what degree they are relevant to the situation in Scotland.

Iain Docherty is correct to say that the bus subsidy in London is now round about £1 billion a year. However, in 1999, before Ken Livingstone came to power, the model was the same, in essence, but was run with a much greater focus on delivering a balanced budget. With the exception of funding for concessionary fares—which, as we have heard, may or may not be a subsidy—no other additional operating subsidy was put into the bus network in London at the time. Despite that, significant passenger growth was delivered throughout the 1990s—in contrast with the situation in the English PTEs and in Glasgow. London showed that it was possible to operate that kind of franchise network pretty much without subsidy although—as I remember from living in London at the time—there were impacts on the quality of the service and the buses.

David Connolly: I do not mind who runs the buses as long as they share their information. If a tourist, or another infrequent user of the bus, is using an app on their phone to work out where the bus is, they should not have to guess which bus is going to come first. People should not be able to find route information for half the buses but not the other half. The fact that bus information is shared will be more important than who is driving the buses or whether several companies are competing in a given area. The bus user should see a seamless service. If the cost model with competing services turns out to be more efficient, the user should not need to know that the organisations providing the service might be competing. Passengers and tourists should be able to get information through apps or published information. We should be considering ways of encouraging the use of public transport by providing full information—probably through apps—to residents and visitors. Whatever is done to the buses, such dissemination of information should be invested in and supported.

Malcolm Chisholm: I want to ask about how the capital investment programme will be paid for. In particular, I am interested in your views on non-profit-distributing finance and Network Rail's regulatory asset base funding. This may be related to my earlier question about transparency. Some payments may not start until the next spending review period, but are they transparent in the budget? Are you comfortable with those approaches to funding? Do any problems concern you?

Professor Docherty: In the roads budget, it is interesting to consider the continuing impact of PFI payments. They last for a significant time, and they are gobbling up an increasing share of the budget. That those decisions have long-term implications is often forgotten.

On Network Rail, there are two sides of the coin, and I ask myself a rhetorical question. RAB is a large-scale borrowing opportunity open to the Scottish Government—perhaps the only one—but would we have had the same focus on railway investment if this Parliament had had borrowing powers per se? I think that I know the answer to that question. It would be interesting to consider how our priorities might be skewed by the opportunity to borrow some money via Network Rail. There are lessons to be learned about our prioritisation because the funding stream exists.

Having said all that, I add that Network Rail is successful in raising money. Both it, and TFL for large-scale public investment projects in London, have shown that they can achieve good rates in the market. Should they achieve their efficiency savings, it strikes me that they offer an inherently sensible way to fund the projects that we would like to have, given the overall structure of how we do public sector borrowing in the UK. Given where we are, that seems an entirely reasonable option, as long as we do not overborrow and we control the limit on the credit card—in effect that is what it is. We also need to know the deficit position and, collectively, we have not done that terribly well at UK level over the past few years, to put it mildly.

Professor Rye: When I read the page in the draft budget about the revenue-financed investment idea, I thought that it was very welcome that some of the problems with the PFI model had been recognised in that way.

Malcolm Chisholm asked about the transparency of the NPD model. Inevitably, in a document of the length of the draft budget it is not possible to give enough detail, but the following comment did not strike me as a hugely helpful explanation of how the model will work:

> "To ensure the future costs of revenue financed investments are sustainable, the Scottish Government will make investment decisions within a prudent and sustainable overall financial framework."

It is possible that some of the dangers of PFI will arise again with the NPD model.

On a slightly wider point and reiterating what I said earlier, if we fund smaller-scale, more local schemes or have schemes that can be funded in a stream rather than in a oner, the requirement to come up with very large amounts of investment funding in one go is reduced, so the requirement to have anything like PFI or, indeed, NPDs is reduced. There are clearly risks associated with what is proposed, but from what I read in the budget I do not think that they have been identified sufficiently. However, I can understand why the Government needs to find some kind of model to fund the investments if it wishes to go ahead with them.

David Connolly: I will duck the question because it is not my area of expertise, but I will air my one hobbyhorse again because I do not have to be re-elected. It is quite ridiculous that people are getting a new Forth crossing and, in effect, not paying for the use of it, particularly those in single-occupancy vehicles. To give away the right to charge for a piece of infrastructure that was needed is a crime in my opinion. I know that for political reasons you cannot, but if you could prevent the new bridge from bringing additional car traffic across the Forth and into the Lothians by having a charge, particularly on single-occupancy vehicles, I would encourage you to consider that very seriously.

Malcolm Chisholm: I suppose the recent example that people have in mind with regard to different funding methods is the Borders rail project. I do not know whether you feel that there was a unique set of circumstances around the tendering process for that. However, some ask whether that process casts doubt on the NPD model. I wonder whether you have any comments on that—do not worry if you do not.

Professor Docherty: Any project of that scale is unique. I would be cautious about reading too much into the potential for future projects to be funded by different means just because of the local circumstances of a particular project at a particular time, given how volatile the financial context has been.

Professor Rye: I have no comment on that specific scheme.

Adam Ingram: I presume that you heard my exchange with the cabinet secretary about the delays in, or the disappearance of, some shovel-ready projects that could be brought forward. I think that you share my interpretation that those projects could have an economic impact. The cabinet secretary indicated that other funds would have to become available in order to activate projects. Where do you think the Scottish Government could obtain other capital or revenue resources from?

12:45

Professor Docherty: I heard the cabinet secretary say that when I was sitting in the public gallery and I took his response to refer to borrowing powers and what any money from that could do. We have had a discussion already about the size of particular budgets. For example, the railway budget is very significant. I am not for a moment arguing for a net transfer of resources from railway to roads. However, with savings from the overall running costs of the industry as it is currently structured, we could spend more money on small capital infrastructure projects such as accessibility to stations, information or any of the small things that really make a difference to people.

We are still tied to delivering a number of large road projects, some of which should have been delivered by now and some of which are in the 20-year programme. Despite our scepticism that they will deliver the macroeconomic benefits that are sometimes claimed for them, it is unrealistic to expect any Government actively to stop delivering things that it has promised.

I am aware of your earlier exchange with the cabinet secretary. There is an intuitive understanding that local support for road projects is high in terms of the impact that local political choices can make. There are lots of demands to be satisfied for roads projects around the country, and many of the demands are absolutely legitimate, such as for safety improvements and to meet other local concerns.

It is hard to see from the budget where additional resources will come from, given the number—even though it is relatively modest—of very large scale road capital schemes that we are committed to. We have heard about the Forth crossing and the Aberdeen western peripheral route, and there are other examples up and down the country. I think that I am correct in saying that some of the headline figures for small projects get squeezed over the life of the budget.

The consistent message that is emerging is that if we are serious about the economy and delivering economic development benefits quickly through transport investment projects, such as they are, large projects appear to be the wrong priority focus. We should seek to boost the number of small projects first.

David Connolly: I will pick up the point that Jackson Carlaw made earlier, while we were sitting in the public gallery, that it is unfair that the money saved from the Forth crossing efficiencies has gone out of the transport and infrastructure budget. We have to be careful about that because of the way that departments work. If they know that they will lose the budget by admitting that they have saved some money, they will find ways of not saving that money. That should be discouraged. If money is promised to a given department, it seems sensible from a behavioural point of view to leave the money with the department and not take any savings away from it.

Professor Rye: My only point to add relates to the cycling infrastructure industry, such as it is. Sustrans points out that a condition of the money that it has received from Transport Scotland to fund cycling projects around Scotland is 50 per cent cash match funding from the local authorities involved. That is another way of obtaining resources for projects. Although trunk road projects are on the strategic network, most of the users of the vast majority of those strategic projects are people who live locally. Therefore, it might bring about a slight difference in thinking about the priorities of the projects if local authorities were asked to come up with some level of match funding for them.

Professor Docherty: I will expand on that point. If we were to give you an unbounded answer to the question, we would begin to look at a series of cans of very wriggly worms in terms of whether our taxation system reflects rational behaviour and whether we capture the benefit from our investments. At the risk of prolonging the discussion about the Forth replacement crossing, I will say that the additional capacity that will be generated by having two bridges—however we decide to use the current one—plus the greater reliability and all the benefits that we get from that investment will increase the land values around the falls on either side of the bridge. The project is designed to do that and stimulate development, but we are not capturing the benefit.

A broader answer to the question is that, if we were to have the discussion in the round and unconstrained by current political realities and the current devolved-reserved split, we would begin to have some very interesting ideas around a whole range of potential taxation mechanisms such as land-value uplift capture, road pricing—remember that?—and user charges.

Professor Rye: I would like to come back on that briefly. I agree absolutely with Iain Docherty that the infrastructure investments move economic development around, which means that land values are moved around. We really need some way to capture those benefits, as significant benefits to landowners that result from public investment in infrastructure are currently going untaxed.

David Connolly: In my opinion, the link between planning and transport is generally appalling across Scotland.

Adam Ingram: You talked about a 20-year programme. The strategic transport projects review is supposed to take into account that sort of timescale in considering our needs. To what extent will the budget underpin the STPR's progress and delivery?

Professor Docherty: We are marking time. A generous interpretation would be that the two priority projects from that review—the Edinburgh to Glasgow rail improvements and the Forth replacement crossing—have been prioritised in the budget. Notwithstanding the comment about the distribution of resources and the return of benefits from projects of a different scale, if the objective is to deliver the STPR as it currently stands, the budget is moving towards doing that. In that sense, it could be regarded as entirely appropriate.

I am not sure that this is the time or the place to reopen the discussion on whether the list of 23 priorities is correct. We spent a long time over several years debating that, and I think the consensus was that it certainly could have been a lot worse. In the previous decade or two, we have probably cost ourselves a lot of money by chopping and changing our national investment priorities.

Large pieces of transport infrastructure have their benefits—we focused earlier on the sometimes grandiose economic claims for them, but road and rail projects bring safety and reliability benefits, particularly for freight, and we should not discount that. If we are in a political economy that is about delivering those things, we should perhaps just get on and deliver the list that we have.

When I was in the public gallery earlier, it was heartening to hear the cabinet secretary say that the Government has a plan and is going to refine it and stick to it, rather than reopening the whole process, which would set us back to square one.

The Convener: We have talked quite a lot about low-carbon Scotland and active travel methods such as cycling and walking. Should the Government be more explicit and prescriptive about active travel in the transport part of the Scottish futures fund? That could even include a dedicated revenue and capital funding line for cycling, and active travel could be embedded in the forthcoming cities strategy.

Professor Docherty: The short answer is yes: the Government should prioritise it more. My favourite interview response from all the academic interviews that I have done in my career thus far is that there are two definitions of policy: either it is what you put in your policy documents or it is what you spend your money on.

Our policy documents are full of rhetoric about active travel, but we are discussing yet again the fact that we are not prioritising it in cash terms. I will let colleagues talk about cycling. I would prefer to stop the automatic rhetorical coupling of cycling and walking, because they are very different modes of transport.

I would argue—this might be an unusual area of disagreement between me and my colleagues—that we have not prioritised walking enough. That is partly because it is politically difficult to do: people do not like being told to walk, or how to walk, as it seems like Government interference. For that reason, over the past decade, the DFT has shied away from trying the more strategic approach of improving the pedestrian environment. However, most people can walk, and the health benefits are immense and easily deliverable. Improving the pedestrian environment does all sorts of things such as improving our streetscape and our community environment. There are a lot of easy wins to be had from it.

Professor Rye: Such a budget line would be extremely welcome, as would a budget line that restores spending on sustainable transport to the level at which it has stood until now. We must remember that around 20 per cent of trips in Scotland are made on foot. While cycling rates are still low—cycling accounts for perhaps 1 per cent of journeys—walking is an extremely important mode of transport. I would add to Iain Docherty's list of benefits the important impact that walking has on the local economy and local shopping streets.

The Government's relationship with local authorities and how they use Government funding could potentially cause some problems with how—or whether—the money is spent on walking and cycling. Therefore, an innovative approach needs to be taken to ensure that match funding, for example, is provided by local authorities or that, at the very least, they spend their money on what they say that they are going to spend their money on.

David Connolly: I confirm that my answer to your first question is yes. I also agree that we should stop putting the active travel modes together. From pedestrians' point of view, the worst thing that we can do is to mix them with the cyclists; similarly, the cyclists are much happier if they have a dedicated off-road lane, not just a ridiculous bit of paint up the side of a busy dual carriageway. It is appalling that some of the 32 local authorities—I cannot remember how many—do not have as one of their indicators the level of active travel among either their schoolchildren or their adults. Active travel is very important for its health benefits and in cutting carbon emissions, et cetera. I would ask the people who are responsible for those single outcome agreements why they think that active travel is not important as an indicator of local authorities' provision, support and general infrastructure for promoting both walking and cycling. It should be made clear in a budget line and local authorities should spell out some of their ideas for rewarding good behaviour in respect of carbon use or active travel. It is all low cost rather than big schemes; delivering more walking and cycling is useful, cost-effective spend.

The Convener: That leads on to our final questions.

Adam Ingram: You said that we are marking time in making progress on the STPR. How would you evaluate the budget against the indicators in the national performance framework?

Professor Docherty: You have taken us full circle, back to our opening comments. It is almost impossible to generate evidence that we could confidently say pointed to the delivery of economic benefits from investment in transport infrastructure. I detect that I am slightly less negative than my colleagues about the importance of investment in infrastructure, as I think that a case can be made for the wider economic impacts that are not picked up and for quality-of-life and safety benefits, and that if we pick the right schemes, we can come up with a justification that would survive analysis. However, asking me to measure the impact of the budget against the performance objectives—smarter, wealthier or whatever—is asking me to make a very difficult call. I am not sure that, in 50 years of modern transport economics, anybody has ever really cracked it, and I am not going to volunteer to be the person who says that he will.

David Connolly: The outcome that we will get will be the healthier one, although you will not see that. Air quality is almost entirely missing from both this and other aspects of the budget, although the poor air quality in some of our cities is almost certainly transport related. There will also be active travel benefits. So, one of the deliverables of any investment in transport and mobility in Scotland will be the healthier objective. I also think that there is scope to boost the economy, particularly the tourist experience, which is very important, and the ability to do business outside Scotland, which was my point when I talked about links and so forth. The total carbon footprint of all aspects of life and consumption in Scotland, including the emissions from traffic, is a good indicator, and the current budget will push the figure up rather than improve it through its focus on big road schemes and increasing road capacity.

Professor Rye: On the greener objective, I do not think that this is a very green budget. Infrastructure investments in road and rail encourage people to travel further, and if people travel further they use more energy. Is the budget fairer? I do not think that it is particularly fair because an emphasis on large-scale rail and road schemes is regressive. It is also mainly wealthier people who use rail. On the final indicator, are we going to be wealthier as a result of the budget? We have already discussed the doubts that exist about how much additional wealth this package of investment plans will generate.

The Convener: No one has any further questions.

Gentlemen, I thank you very much for your comments, which are helpful. I will suspend the meeting to allow the witnesses to leave the room.

12:59

Meeting suspended.

13:00

On resuming—

The Convener: That evidence session has certainly given our budget adviser David Gray lots to work with and report back to us on at future meetings.

I now seek the committee’s agreement to delegate to the convener responsibility for arranging for the Scottish Parliamentary Corporate Body to pay, under rule 12.4.3, any expenses to witnesses in relation to scrutiny of the draft budget and spending review. Are we agreed?

Members *indicated agreement.*

Subordinate Legislation

Property Factors (Scotland) Act 2011 (Commencement No 1) Order 2011 (SSI 2011/328)

Local Democracy, Economic Development and Construction Act 2009 (Commencement No 3) (Scotland) Order 2011 (SSI 2011/337)

13:01

The Convener: The next item on the agenda is consideration of two commencement orders that are not subject to parliamentary procedure. Does the committee agree to note the orders?

Members *indicated agreement.*

Petition

Essential Ferry Services (Governance) (PE1390)

13:02

The Convener: The next item is consideration of PE1390 by Neil Kay on the governance of essential ferry services. Given that, as we heard earlier, the Scottish Government intends to publish the ferries review later this year and that the committee has agreed to scrutinise it at that time, I suggest that members agree to consider the petition further at the proposed evidence session with the Minister for Housing and Transport on the outcome of the review. Are we agreed?

Members *indicated agreement.*

The Convener: That concludes the public session. We will now move into private.

13:03

Meeting continued in private until 13:07.

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