



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 2 November 2011

Session 4

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

7th 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:

Ian Aitken (Cycling Scotland)

Scott Allan (Society of Chief Officers of Transportation in Scotland)

Amy Dalrymple (Scottish Chambers of Commerce)

Valerie Davidson (Strathclyde Partnership for Transport)

Dave Duthie (Highlands and Islands Transport Partnership)

Eric Guthrie (Tayside and Central Scotland Transport Partnership)

Colin Howden (Transform Scotland)

Keith Irving (Living Streets Scotland)

John Lauder (Sustrans)

David Lonsdale (CBI Scotland)

Gareth Williams (Scottish Council for Development and Industry)

Neil Wylie (Strathclyde Partnership for Transport)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 6

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 2 November 2011

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Maureen Watt): Good morning. I welcome everyone to the seventh meeting of the Infrastructure and Capital Investment Committee, and remind members and members of the public to switch off their phones and BlackBerrys, as they affect the broadcasting system.

We have received apologies from Jackson Carlaw.

Agenda item 1 is to decide whether to take agenda item 3 in private. Do members agree to do so?

Members *indicated agreement.*

Neil Findlay (Lothian) (Lab): Convener, I would like to raise an issue and perhaps get some guidance before we move on to the next agenda item. We have been contacted by a gentleman who lodged a petition that we considered a few meetings back. We agreed to deal with the issue when it came up in the ferries review. Given the concerns that were raised in the exchange of e-mails about the committee not getting the full information at the time, perhaps we can learn from that for the future so that, if we have to consider a similar matter, we will have the full information.

The Convener: That matter will be on the agenda for discussion at a future meeting. Formal withdrawal will be discussed. We will discuss the ins and outs of the matter then.

Neil Findlay: Okay.

The Convener: I have written to the gentleman concerned.

Neil Findlay: I have seen the letter, but I wanted to raise the process issue.

The Convener: We will discuss the matter at a future meeting. A good point has been raised.

Draft Budget 2012-13 and Spending Review 2011

10:02

The Convener: Agenda item 2 is scrutiny of the draft budget for 2012-13 and the 2011 spending review. We will hear evidence on the transport aspects from three panels of witnesses.

I welcome the first panel. Scott Allan is head of roads and transportation at Renfrewshire Council and is representing the Society of Chief Officers of Transportation in Scotland. Eric Guthrie is a partnership director at Tayside and central Scotland transport partnership—I should probably declare that he and I worked together in the days of Grampian Regional Council. Dave Duthie is a partnership director at Highlands and Islands transport partnership. From Strathclyde partnership for transport we have Valerie Davidson, assistant chief executive, business support, and Neil Wylie, director of finance and human resources.

We have a big agenda, so if panel members agree with what has been said, they should simply say that rather than repeat it. We will try to keep our questions short.

What are your organisations' thoughts on transport infrastructure spending in the draft budget?

Scott Allan (Society of Chief Officers of Transportation in Scotland): SCOTS welcomes the investment, and we generally support the strategic priorities. We recognise the benefits to employment in the short term and the potential for growth in the economy as a result of investment in transportation.

The one issue that SCOTS wants to raise is the road maintenance backlog throughout Scotland. Today, at an event hosted by the Convention of Scottish Local Authorities, a paper on the roads maintenance review will be heard and different ways of making savings on road maintenance will be considered. A key message is that we have a backlog that is a result of many years of underinvestment, and investment is needed in the future. It will take a long time for the system to recover, but a pound spent early and proactively could save us from having to spend two pounds in the future. We will need to look to future budgets to address the national road maintenance backlog.

Eric Guthrie (Tayside and Central Scotland Transport Partnership): I preface my comments by saying that I will be giving my personal observations, which are not necessarily the views of tactran or its members. You would expect me to say that.

As a body, we recognise the difficult financial environment within which the Scottish Government has prepared the budget. We also recognise and welcome the fact that overall funding for transport and infrastructure has increased in the draft budget. We welcome the establishment of the future transport fund as a means of providing funding for what we see as important improvements in transport infrastructure and systems. However, there is a concern about the lack of clarity on the level of funding that will eventually feed through into sustainable transport from the fund, and on the volume of funding that is needed to deliver on the national and regional transport strategy objectives. We generally support the switch from revenue to capital spending, although we have concerns about the possible implications further downstream in relation to council capital and our delivery of projects.

I have a number of other comments on specific elements of the budget that might come out in questioning. As I say, we broadly welcome the increase in funding, but we have some concerns and disappointment in relation to particular lines and elements of the budget.

Dave Duthie (Highlands and Islands Transport Partnership): I agree with everything that Scott Allan and Eric Guthrie said. We welcome the commitment in the budget to have substantial capital spend on transportation. The Scottish Government recognises, as does the Westminster Government, the importance of capital spending on transportation for future growth. However, we have concerns about what the future transport fund will consist of and how it will be developed. For instance, where will the funding that is currently used for the freight facilities grant and safer streets be held, and will it be developed? Given the Government's commitment on 10 per cent of journeys by 2020 being cycle journeys, it is important that we can demonstrate the commitment of regional transport partnerships and councils to help the Government achieve that aim. At present, I cannot see that in the budget.

Valerie Davidson (Strathclyde Partnership for Transport): SPT recognises that the budget has been set under difficult financial constraints. We welcome the principles that are at its core and the contribution of specific capital funding. Unlike the other RTPs, SPT receives capital funds, so we are significantly different. One issue that we want to raise is the level of revenue support for services. The budget has the aim of supporting regeneration and employment, kick-starting the economy and getting people into employment. However, the bus budget, for example, is under significant pressure, which will affect the ability to maintain routes. The commercial market will fail

and we will look to the public sector to step in. That budget is continually under pressure. I am sure that we will discuss that point further.

SPT welcomes the principles of the budget, particularly the contribution that is being made to the Glasgow fastlink project. Obviously, we have issues relating to the subway contribution. We welcome the announcement on subway funding, but we are still working through the details. I am sure that those issues will come out in the questioning.

Neil Wylie (Strathclyde Partnership for Transport): I simply echo Valerie Davidson's comments.

The Convener: The regional transport partnerships and local authorities obviously work together to facilitate the delivery of regional transport strategies and local authority strategies, but is there room for more joint working? I always think that the area is very cluttered, with Transport Scotland, regional transport partnerships and local authorities all trying to deliver transport measures. Sometimes, in my area of the north-east, Transport Scotland will carry out an inquiry into something—crossrail, let us say—and then the regional transport authority and local authority will also do that. There seems to be a lot of duplication. Is there room for you to work even more closely and efficiently in future—and not necessarily just because of constrained budgets, although those are often a driver for more efficiency in the system?

Valerie Davidson: This is where SPT differs from the other RTPs. SPT is already a shared service model. In fact, because we have 12 constituent councils and we deliver services on behalf of those councils, working with them as partners, we already deliver across a wide area.

To try to avoid duplication we work with our partners on what is needed at a local level. I brought along a document today that members may find useful—I am happy to send it to the committee. The document highlights what we deliver at a local level on the shared services model. We deliver a local concessionary scheme in 12 councils and subsidised buses across 12 council boundaries. Although that is done by SPT and not by councils, it takes on board local needs.

There is obviously continued scope for shared services. That is an important point. We have started to move that forward with our partner councils. We are already doing work for Glasgow, and Renfrewshire has recently asked us to do scheduling for fleet management work. Shared services are starting to grow, and efficiencies may come out of that.

Dave Duthie: HITRANS covers quite a large geographical area and five councils. Uniquely, in

the Highlands and Islands air and ferry transport goes between council areas as a core function. It is important therefore that anyone who is speaking for local communities as a whole deals with those modes. For instance, at the moment there is a Scottish ferries review. There is also the northern isles tendering process. We are engaged with Transport Scotland and are putting forward the views of the councils that are involved. We make the case for the councils and bring together the work that they are doing individually.

As budgets are being squeezed and councils are having to reorganise their internal structures, I have found that the level of skill in transportation has had to be reduced in each council. We have found that we can add value there. Given our expertise we can work with councils to increase their experience in particular areas and help to make things happen.

Another area is European funding. Councils nowadays—certainly in our area—tend not to go for European funding directly. They tend to work together. We have been acting as a conduit for that on a fair number of European projects. We have drawn in funding from three or four councils, added European funding and managed the project. That work would not happen without the RTP.

There is a place for RTPs as they are, but our role could increase, although not by taking over local services. In our area, we have Argyll, the Western Isles, Orkney and Highland. They are geographically quite distinct and there would be no advantage in having them all run from Inverness, for instance. However, there is an advantage in sharing knowledge and experience, which is what an RTP does. You would not get that if you centralised it all to Transport Scotland.

Eric Guthrie: I echo what Valerie Davidson and Dave Duthie have said. I take the view that the RTP adds value at a strategic level. We work hard at not duplicating what our councils do. For example, where they deliver public transport on the ground through supported bus services and so on, we do not get heavily involved. What we do is to look at strategic issues such as rail and freight connectivity. We also look at behavioural change and travel planning. That is done largely at a regional level with our resources, and through that we support not only our councils in making progress but other public sector bodies and private sector agencies.

We tend to be the agency locally or regionally that looks at issues such as park and ride because of the cross-boundary nature of such services. For example, we are funding and leading the work in Dundee, very much in partnership with our councils. That brings us back to the link to Transport Scotland because, as the committee will

be aware, the projects around Dundee are part of the strategic transport projects review. I see the RTP as providing a useful bridge between local and national delivery.

We can also claim to have some success in delivery with our councils. We are not leveraging in as much capital as we would like, but we are having some success in leveraging in capital for projects such as improving access to Dundee port, which is all about supporting the renewables industry. I could go on. A lot is going on that can demonstrate how the RTP and councils are working together and with Transport Scotland. Part of that is how we engage in community planning and single outcome agreements and, increasingly, in the development planning process, where there are strategic issues around strategic development plans, to which RTPs add value.

10:15

Scott Allan: I agree with everything my colleagues have said. The pace of service sharing is likely to increase because of the budget pressures, but it is important to know that transport has a role to play at a local level in tackling social and employment problems within council areas. The view of SCOTS is that councils are best placed to determine how best to deliver services in their area.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I understand that the RTPs have been awarded a flat spending allocation. Given what is happening to the global Scottish block grant and to budgets across the board, I presume that, if not quite pleased with that, you are at least satisfied with what is proposed?

Eric Guthrie: Yes, we welcome the continuity of funding, which, you will be aware, funds two elements of our work. It funds our core costs of keeping going what are, for most of us, small organisations through the work that I have just described, but it also contributes to the development work that we do in the regional transport strategies, which is also very important. So, yes, we welcome the continuity of funding that is implicit in the draft budget.

Jamie Hepburn: Is that view shared across the board?

Valerie Davidson: I do not wish to continually highlight differences, but while the continued flat funding is welcome, Government revenue support to SPT forms only approximately 1.5 per cent of our funding; the rest comes from our constituent councils, and we are planning for a reduction in the level of spending from them. A flat allocation from the small part that comes from Government is welcome, just to put a degree of stability in the budget.

Jamie Hepburn: Even though the common view is that it has been welcomed, I presume that there will still be an impact. What is that likely to be?

Valerie Davidson: SPT has implemented a large efficiency plan over the past 18 months or so in order to reduce the total cost to all our funding partners. That has resulted in £3 million coming out of our budget, which is 10 per cent in cash terms, and more than that in real terms. We have managed to do that while maintaining funding of front-line services. We took it out of back-office costs, running costs and staffing costs—we reduced our head count by 100 over that period. However, that cannot continue, because it will have impacts at some point.

We have deliberately focused on the front line. We have maintained our subsidised bus budget, funding it through back-office savings and, to an extent, efficiency programmes, particularly spend-to-save programmes to drive out additional costs. So, yes, the funding situation is having an impact, but at this point we are managing to maintain the level of funding to front-line services.

There is pressure from the commercial market in tendered costs, which means that, while we have maintained our budget, at some point the level of service will come under increasing scrutiny. However, at the moment we intend to maintain the level of service. It is not easy, but we have delivered it over the past 18 months or so. I suspect that that is reflected in the other RTPs.

Dave Duthie: The situation with HITRANS reflects the situation in all the model 1 RTPs. We are very lean—we only have five staff—and we have a duty to have board meetings, to have the members meet and to bring in the key stakeholders regularly. In order to do all that within the funding, we are looking for European funding opportunities so that we can meet some of our core staff costs from European projects.

At the moment, we are involved in two European projects and are hoping to hear about a third in the next couple of weeks. As well as being able to draw in council funding, we have been able to contribute some of our core funding for staff costs and significantly increase the value that we bring back to Scotland.

Eric Guthrie: Although we certainly welcome the continuity of funding from this year to next, I should provide some backward-looking context and point out that the situation was preceded by a 15 per cent cut in RTP funding in the current year, which has had an impact. Roughly 50 per cent of tactran's funding from the Scottish Government covers core costs, while the remaining 50 per cent is for project development. The reduction in this year's funding has left us with about £250,000 to

invest in that kind of project delivery. That is not a huge budget but, as I said earlier, we try to work very hard with councils and other partners to maximise its benefit. For example, we are working with Perth and Kinross Council on examining air quality and associated freight issues and leveraging in the Scottish Government air quality grant to address some of those issues in and around Perth. Like Dave Duthie and the other partnerships, we have also made bids for European funding. We are certainly trying to use the funding that we receive to lever in more funding.

Valerie Davidson: I must point out that, although we welcome this year's funding, treasurers or anyone responsible in the long term for an organisation's funding know that it is very important for a body such as SPT to have a degree of stability and to know what the funding will be not just for next year but for years 2 and 3. As I am sure the other RTPs will agree, such an approach allows us to look beyond anything imminent happening next year. That is especially important with capital funding; after all, many capital infrastructure projects are not completed in one year and go across financial years. As a result, I make a plea for any settlement to be as long term as possible. Two or three-year settlements would certainly assist in the delivery of programmes.

Jamie Hepburn: I was going to ask about other sources of funding, convener, but the witnesses have pre-empted my question.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): A number of capital projects will be paid for through non-profit-distributing finance and Network Rail's regulatory asset base funding. What is your view of those funding mechanisms?

Valerie Davidson: Although Network Rail's RAB, which funds assets on the rail network, is a means of getting in funding, you have to compete with everything else. Moreover, it is a United Kingdom-based funding mechanism. Any decisions in that respect are difficult ones.

As yet, we do not have enough information to make a judgment on Scottish Futures Trust funding and whether it will be top-sliced from elsewhere, and it would be helpful to have some clarity on the matter. It will be interesting to see whether it will simply be a matter of the pot going round and whether the mechanism itself will be funded from money that would have previously gone to councils, which, in turn, will be looking to reduce other support for RTPs.

With regard to additional funding sources, SPT is seeking to borrow to fund subway modernisation and has established a funding schedule to support that activity. RAB is not suitable for our projects,

but SFT funding might be, and it might be easier, cheaper and more effective for us to borrow through the Public Works Loan Board.

Dave Duthie: Like councils, all RTPs have the capacity for prudential borrowing and I am sure that Government will be looking at whether it can use that mechanism to move certain capital schemes forward.

It is generally recognised that public-private partnerships and the private finance initiative did not provide best value for public funds—indeed, that has been demonstrated across the board—and NPD tries to do what those approaches did without incurring substantial costs. I wish it well because without it we are not going to have enough in our core budget from Westminster to develop the transportation that we feel we need in Scotland over the next 10 years.

Malcolm Chisholm: One of the worries about PFI was its effect on future revenue budgets. Do you have similar fears about the RAB and NPD funding streams? I suppose that the mechanisms are not dissimilar although the details are different.

Dave Duthie: The mechanism is basically the same: you are paying a revenue return for what you have been given on the ground, as happened with the M74. You can see those large lines in the budget—you can see the cost of the previous PFI schemes. One would hope that, having learnt from that, the contract that will be set up will contain some mechanism whereby the large potential profits are managed so that any significant profits come back. We want to transfer risk to the private sector but we do not want to do so completely because we could end up paying more than is reasonable, as we did with some of the previous PFI schemes.

Neil Wylie: We have shared our business case for subway modernisation with the Scottish Futures Trust and we have discussed potential financial borrowing models. Its strong advice to us was that, at this stage, prudential borrowing looks like the best option for us. We have run the idea past the SFT and had detailed discussions with it, but it looks as if we will be taking the traditional route at this point in time.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): What impact will the budget have on the delivery of the strategic transport projects review?

Dave Duthie: The strategic transport projects review identified about 23 schemes—not projects—to be carried forward without any timeframe or commitment. During the previous parliamentary session, we had a commitment to move forward on four of those schemes: the Forth replacement crossing, the Edinburgh to Glasgow improvement programme, the Highland main line

and Inverness to Aberdeen. Although the Forth crossing and EGIP seem to be moving forward, there is no sign of that for the Highland main line and Inverness to Aberdeen. We hope that work is being done behind the scenes on those projects, but we want the Government to confirm that while it might not start constructing the projects within the period of the spending review, it is working them up so that they are shovel ready—that seems to be the current term—for some stage in the future. If that is not happening, given the time that it takes to deliver such projects, we could be looking quite significantly far into the future.

At a recent conference, Keith Brown said that there is £9 billion of capital expenditure within the spending review budget, of which £6 billion is going into transportation. I have had a quick look at the commitments that are made in the budget and, from what I can gather, less than £100 million—or about 1.5 per cent—is going into the Highlands and Islands. Even on a population basis, the Highlands and Islands is about 8 to 10 per cent and during the past 10 years, the Highlands and Islands has not been getting as much as would be expected even taking account of the population or the larger challenges that we have in, for example, delivering ferry services in our region.

That must be recognised, because the future of the Highlands and Islands and of Scotland will rely much more on things that happen in the Highlands and Islands and other rural areas generally, whether it be tourism, renewable energy development, quality food and drink or forestry. For example, it is not recognised that 50 per cent of the commercial forests in the UK are in Scotland. We have to put funding into them so that they can be developed to their maximum potential. Looking at the three years of the spending review, I am not sure that that will be achieved.

The Highlands and Islands is looking for recognition of the potential that we represent and for investment to be put in at some point. Given that it generally takes 10 years from the start of a scheme to procurement, it is important that work is being done to develop major projects, particularly projects in renewable energy, which will happen largely off the north and west coasts.

Adam Ingram: You say that you hope that work is being done. Do you not know whether work is going on?

Dave Duthie: We do not. If it is, there is no detail of it in the budget.

10:30

Eric Guthrie: I will add to what Dave Duthie said. Our perspective on the STPR is similar. When the STPR funding line increased last year

and this year, we hoped that that indicated that a programme might come forward beyond the so-called four priority projects. Tactran supports EGIP, which has direct benefits in our region, and the Forth crossing, but we would like an indication of planning for a broader programme under the STPR. Transport Scotland's annual report for last year suggested that that has happened, but I am not aware of and have not seen such planning.

We would like more direct progress on a number of initiatives. It is difficult to see funding for them—they include quick wins—in the draft budget. I mentioned strategic park and ride. We are doing a lot of work in partnership with Transport Scotland and our councils on strategic park and ride around Dundee and Perth. The difficulty is identifying the capital funding to implement such schemes.

We are looking for other ways to fund the projects, but no funding seems to be in the current or draft budget for the other projects in the STPR on which our regional transport partnership would like greater progress. I include in that the rail projects that Dave Duthie mentioned, such as the Highland main line through Perth to Edinburgh and Glasgow, and the rail improvements from the north-east through Aberdeen, Dundee, Perth and Stirling to Glasgow and through Dundee to Edinburgh. It is important to move forward with those projects for national and regional transport strategies, but identifying funding for those projects is difficult.

Valerie Davidson: I will not reiterate what my colleagues said about EGIP and the Forth crossing—SPT welcomes those commitments. Unlike the other RTPs, SPT is funding more local but regional projects—park and ride is a classic example—from its general capital resources and not from a separate line in the budget. That is how we are driving those projects forward. We look for additional funding with partners—for instance, we have just submitted two European bids to help with those projects. We are looking at external funding sources.

We welcome EGIP and the Forth crossing in the STPR, but Eric Guthrie is right to refer to a lack of clarity about what will follow.

Adam Ingram: We have heard a lot recently about the benefits of moving ahead with small-scale, shovel-ready capital projects. It is clear that a dearth of financial resources is available to us. Do you have ideas about where we could get capital? You mentioned partnerships. Do we have any prospect of progressing STPR schemes and projects through an innovative funding mechanism?

Valerie Davidson: SPT has on the go about 100 capital projects of all sorts of sizes. They

range from big projects, such as subway modernisation and fastlink, to smaller park-and-ride projects at particular stations to assist the network.

I talked about partners. We are working with our local authority partners and with regeneration companies. Dalmarnock station is a classic example—we are working on it with Transport Scotland, which is putting in funding, as are we, Glasgow City Council and Clyde Gateway. We have also succeeded in obtaining European funding to complete the project. We are looking at bringing together packages, as we recognise that everybody will face a dearth of additional funding. We are putting together projects that will pull together smaller packages from partners.

All the RTPs have borrowing powers. SPT will probably use its borrowing powers next year for subway modernisation. However, we must ensure that we can pay the support costs for borrowing. There are shovel-ready projects, but we must have the revenue support to pay any debt costs. We must bear it in mind that the money is not free. We must know that before we engage in any borrowing activity, so that we do not leave surprises down the line for somebody to pick up—we cannot do that.

There are ways to make projects happen. As RTPs, perhaps we should all consider whether we can use such powers slightly more strongly. We have started to engage on that; the other RTPs will need to engage with their local authorities and funding bodies on paying for that.

Dave Duthie: Within HITRANS, we certainly work with the private sector quite a lot on freight movements—moving lorry loads from the road to rail. We also work with the private sector in developing park and ride. We worked with Highlands and Islands Enterprise and Highlands and Islands Airports Ltd to develop a new air service between Inverness and Amsterdam so that we can get connectivity to the rest of the world, which we do not have at the moment through Heathrow. By doing that work, we can encourage inward investment into the region to make it more sustainable.

We try to work in those areas rather than just with our councils, because we appreciate that they are strapped for cash and have priorities over a much larger spectrum than simply transport. We work with the councils where we can, but we also look for other public sector and private sector partners to move forward particular work.

Scott Allan: From a council perspective, it is a case of lowering our aspirations and reducing what we think we need to spend in the future on transport schemes. The key point is getting high value from such schemes and, in particular,

having strong links with what councils do, which is about economic regeneration and getting people back into jobs. We want the transport budget to help broader council strategies. That is a key approach that is coming out of local authorities.

Adam Ingram: Clearly, there would be an option of shifting resources from megaprojects, but I take it from your answers that you would not be in favour of that.

Dave Duthie: We are talking to the minister about the potential for having a number of small projects of less than £10 million. For instance, in Caithness, there is a scheme at Berriedale braes, which is a place with a bad road accident record. For somewhere in the region of £3 million, we could have something that would not be the ideal solution but which would get round an important problem and constraint. It is not just the constraint of the bend there, but the perception that Caithness is difficult to get to, which might mean that a company would decide not to move to Caithness because of a perception rather than the reality. By providing a small amount of funding for such a project, we may be able to make a significant difference; in the case of Berriedale braes, it would also mean not having to spend £120 million on building a brand-new viaduct.

I think, therefore, that there is a case for shifting resources from large projects and that they will slip to some extent. The cabinet secretary suggested that savings from such projects might not necessarily come into transport. We have some concerns about that, but we know that the cabinet secretary has challenges and must decide where best to spend the funding that he has. Obviously, we would make the case for transport investment not only in the north but to the west, on the A82. There are significant constraints on what can happen in the west Highlands because of the condition of that road.

Eric Guthrie: Schemes such as the Forth replacement crossing and EGIP have already been committed to, so we certainly support their continuation and completion. However, as I said, we would like to see greater prioritisation being given to what I refer to as quick-win smaller projects, which I believe would still have significant benefits in achieving our climate change objectives and the economic objectives that Scott Allan mentioned. However, it is difficult to identify funding for such schemes, despite the effort that we make, as described by Valerie Davidson and Dave Duthie. It is quite difficult to find even relatively small sums of money to bring forward for such schemes, although in our area we are quite close to getting some schemes up to planning level.

Adam Ingram: There is also the question of value for money. We have had some criticism of

the Government's investment in the rail industry, for example. Is there any scope or opportunity for better value for money from, for example, the forthcoming refranchising? Do you have any thoughts on that?

Dave Duthie: Transport Scotland has been very positive in arranging meetings with each of the RTPs and, indeed, with stakeholders in the areas that are served by the rail network. We would certainly expect suggestions on more novel approaches to how the network might be run in the Highlands and Islands. Obviously, the network is very long and has very long journey times. We must look at how to make it better. We need more passing loops, for example, but we can also consider how we can improve how the service is delivered on the ground.

We are encouraged by the fact that Transport Scotland is speaking to us about that, because we have experts on the rail sector and can add real value to what Transport Scotland is trying to do. We are working up towards the next franchise, and it is certainly our view that we are now being engaged regularly by Transport Scotland on the rail side, which is very good.

Eric Guthrie: I echo Dave Duthie's welcoming of the engagement with the regional transport partnerships.

The consultation process on the franchise that is about to start offers us an opportunity to look at whether some of the proposed additional enhancements between Aberdeen and the central belt and on the Highland main line, as well as the more local rail enhancements, can be built into the franchise in a more innovative way. That will involve looking at other partnerships and funding around the delivery of the service that might be add-ons to the franchise. It is fairly common for the RTPs to do that. We are looking at how we can improve local rail services. We have had some success on that with ScotRail and Transport Scotland, as the—albeit relatively small—improvements in the December 2011 timetable will show. There is optimism there. A lot of positive working is going on, including within the rail industry. I hope that the franchise process will give us the opportunity to build on that.

Neil Findlay: I want to take you back a bit. You said that you supported the big prestige projects because they were already committed to, but if we went back to the start of the process, would you have supported them?

Eric Guthrie: That is a retrospective question.

Neil Findlay: "No" will do.

Eric Guthrie: The answer to that is that it would depend on the evidence base that existed. There are different views on whether the Forth

replacement crossing is required, but if you accept that the arguments in favour of a replacement are sound, you would have to accept that position. That is certainly the position that our tactran partnership board has taken, perhaps because we are located very close to the Forth crossing. We see the replacement crossing as critical to our continued economic wellbeing.

The comment that I made was more about future prioritisation of spend. There are other big projects in the STPR, and there are other big projects that have emerged since the STPR—high-speed rail, for example, is beginning to attract increasing attention. We welcome the fact that the draft budget seems to allocate £1 million to support the building of a business case for HSR coming to Scotland. The view among the RTPs generally is that the UK Government's strategy on HSR is not in Scotland's best interests, because the proposed line does not extend all the way here.

However, my partnership's support for HSR is qualified by the need to see, ahead of HSR coming to Edinburgh and Glasgow, improvements north of the central belt such as the electrification of the network north of the central belt and the shortening of journey times north of the central belt so that the whole of Scotland can share in the benefits that HSR can bring.

It is necessary to look at the big projects and at how their benefits extend across Scotland. There also needs to be a balance in the prioritisation of spend so that smaller projects can come forward. At the end of the day, it is about striking a balance and making a judgment. All I am saying is that, at the moment, the high-spend projects are being favoured a little too much. There needs to be a bit of rebalancing towards the quicker-win, lower-cost projects that will still deliver significant benefits.

Scott Allan: I agree with that. Valerie Davidson said that SPT has 100 capital schemes on the go. Moving a small amount of money from the major projects into local projects makes a big difference.

Neil Findlay: In his evidence to the committee, Professor Docherty questioned the existence of an evidential base for big infrastructure projects delivering any economic growth. He said that he had never found any such evidence, despite having studied the subject for some time. Do your organisations operate on an evidential base that allows you to say that the schemes that you implement will have some economic benefits?

Dave Duthie: We did a study on the Skye bridge, the building of which was a major change in transport links to the area. It showed that benefits would derive from it that were proportionate to what was suggested in the business case. Such evidence does exist.

There is other evidence. My view is that if the A90 had not been dualled up to Aberdeen, Aberdeen would not have become what it is now. If the A9 had not been improved up to Inverness, would Inverness be what it is now? Some would suggest that if those improvements had not been made, those centres would have developed as they have done anyway. I take significant issue with that view, as I do not think that they would have done. The work has to be done to demonstrate the need for such improvements, but I think that if it were done, it would demonstrate it.

10:45

Valerie Davidson: If I can flip that round the other way, there is another interesting point in relation to whether large transport projects provide economic regeneration. We have looked at the business case for the subway modernisation project and the impact that it will have on the economy not just in Glasgow but elsewhere, because it is merely part of a network that links all parts of the west, and indeed other parts of Scotland, to different facilities in the west. That threw up that the project will not generate huge numbers of jobs, but it will secure and avoid the loss of up to 3,000 jobs because people use the subway as part of the network to get to their employment. If the network was not there, it would be far more difficult for them to get to certain places.

My point is almost the reverse of the previous point, because it is about maintaining what we have. When we talk about capital investment, we discuss big projects, but it is important to ensure that we also maintain Scotland's asset base. While we put lots of money into what I call shiny new buttons, we must ensure that the things that we have already invested in are maintained and enhanced. Otherwise, a huge amount of money will have to go in to tackle backlogs and do patching at a later date. It is important for regeneration and employment that we maintain what we have—of course, we hope to add to it as well—because there will be negative consequences if it is not there. That relates to Dave Duthie's point about the A90. If it was not there, would Aberdeen lose jobs?

We could argue the point for some time, but the outline business case for the subway modernisation suggests that we will maintain employment in certain areas as a result of the project.

Neil Findlay: We have heard various comments on whether the concessionary travel scheme is sustainable and whether it delivers for everyone or only some people. Do you have views on that?

Dave Duthie: Valerie Davidson is an expert on concessionary travel, having run the Strathclyde concessionary scheme in the past, so no doubt she will have a lot to say about the urban situation. I will comment from the point of view of the Highlands and Islands.

In rural areas, people who should be able to use the scheme are often unable to do so because there are no bus services. A number of years ago, a rural transport grant scheme was available whereby local bus services could be provided in rural areas to allow people to get around easier, but that has gone by the wayside and councils have not been in a position to maintain services. A significant proportion of funding for the concessionary travel scheme relates to the major cities. If there was a review of how the money is spent to provide benefit to the country as a whole, we might come up with a different structure for the funding of services. For example, people are allowed two return ferry trips per year. If someone lives on an island and they have to get to the mainland, that is not a high level of provision. If someone happens to have a bus service rather than a ferry service, they can use it every day of the week. We need to look at that.

Given the amount of funding for the scheme, we have a significant opportunity to look again at how it is delivered. That will have to be done at some point.

Valerie Davidson: SPT welcomes the national concessionary travel scheme, which is a huge benefit to a large part of the Scottish population and has benefits other than transport benefits. For example, it has health benefits and it gets vulnerable groups out and about, which has many benefits.

There is a local scheme in Strathclyde that is funded by the 12 councils. It used to be part of the one big scheme but it is now a local scheme. It covers rail, ferry in some areas of Strathclyde, and the subway. It is run by a joint committee and is a separate legal entity, although we manage it. In the past couple of years, it has grappled with the fact that some people who are economically active enjoy the concessionary travel scheme—we have evidence of that—and there is a fear that the cost of the scheme is unsustainable.

Therefore, to ensure that the Scottish Government gets the best out of every pound that it puts into concessionary travel, we will need to consider that scheme. We have evidence of people going to work on the bus and going home by train on a concession fare. The scheme was never intended for that; it was intended to ensure that people could get to places of employment, medical centres and third-tier shopping centres, as the term was at the time. The scheme has

changed and the way in which people use it has changed.

There is an issue of sustainability. The costs of concessionary travel are forever increasing, even locally. We are grappling with that. We have increased fares and changed the scheme marginally to ensure that it can continue, and we are talking to operators about their role in the scheme. It is an important issue that Scotland will have to deal with.

Eric Guthrie: There is a question about whether the concessionary travel scheme is sustainable. The budget caps the amount of funding over the three years of the spending review, which in real terms is a reduction, because of the inflationary costs that the bus industry will undoubtedly encounter during that period. Through time, demographic changes will put significant pressure on the budget. Dave Duthie and Valerie Davidson touched on a number of issues. One issue that I am concerned about is the reduction in the bus service operators grant. Despite the fact that the operators are refunded for concessionary travel on the basis that they should be no better off and no worse off, that scheme and the bus service operators grant are two important revenue streams for the bus industry. If they are capped or reduced significantly in real terms, that will be a reduction in income for the bus industry, so there would have to be a concern about the overall sustainability of bus services.

I travel daily on bus services in Perth and I see with my own eyes that a significant volume of the patronage uses concession cards. That helps in a big way to sustain the bus network in the area in which I live, work and travel. That will be replicated to a greater or lesser extent throughout Scotland.

There are questions about sustainability in relation to not only the travel concessions line in the budget, but the bus service operators grant line, which we understand is to be extended to include demand-responsive transport services. That will be an additional pressure on that budget, which is to be reduced. The concern for everyone involved in transport is whether so-called unintended consequences will arise from that and from other cost pressures on the bus industry. We are concerned about how that supports the objective of making public transport more affordable for everyone and not just for those who are eligible for a concessionary travel pass.

We are also concerned about the availability of public transport generally in the shape of bus services that are delivered commercially or through subsidy and about the possible pressure on that subsidised budget in the public sector.

Neil Wylie: To follow on from Eric Guthrie's comments, we see that impact directly. We spend

approximately £11 million on socially necessary bus services in the Strathclyde area. Where bus operators' income is reduced or squeezed, services that are on the margins of commercial viability are withdrawn. That affects communities directly and there is an expectation that SPT will step in. As Valerie Davidson said, in the past couple of years, we have sustained that budget, but we are pretty much hitting breaking point. As bus operators are hit further, we expect more services to be withdrawn and more pressure and expectation on our budget.

Scott Allan: There is scope to move money away from broad subsidies to much more targeted intervention. An example of that is support for employability programmes. Getting from home to the workplace can be difficult. Targeted support for individuals to get them back into work could be a low-cost solution that helps a fairly large base of a council's problem population. There is scope to provide significant assistance to people with small amounts of money for local employability programmes.

Gordon MacDonald (Edinburgh Pentlands) (SNP): We have touched on most of the national concessionary travel scheme issues that I wanted to ask about, but I have a couple of points. First, the scheme has two elements, one of which is the young persons scheme, which is small. Basically, young people get a third off their travel costs. Should the scheme be refocused to help young unemployed people get back to work?

Secondly, the overall cost of the scheme has risen by £30 million since its introduction in 2006. What scope is there for the Government to save through efficiency savings or by validating operators' claims?

Valerie Davidson: SPT does not have a young persons scheme within its local scheme. There is an argument that a young persons scheme can be used to stimulate employment by enabling people to get from A to B for employment purposes. However, the core of that issue is that there has to be a bus that makes that journey. If there is no bus route, the scheme would not be as valuable as it could be. It is important to address the bus route issue first.

With regard to reducing the cost of the scheme, SPT is in discussions with Transport Scotland to introduce a smart card ticketing scheme, which will assist with the reliability of the data that we get out of operators. We will implement that scheme in the subway first, and will work with Transport Scotland to roll it out across the west. There is scope for using more reliable data to help to reduce the cost of the scheme. However, without the evidence to support that, that is a question for Transport Scotland.

Gordon MacDonald: The formula is based on a single adult fare. Should it move to a route-average adult fare? There are a lot of discount tickets out there.

Valerie Davidson: We have considered that issue with regard to calculating the level of reimbursement for the local scheme. There are a lot of discounted tickets, off-peak tickets, day-return tickets and so on. There is a strong argument that the calculation should be based on the ticket that the individual would otherwise have to buy. However, the key to that is having the technology to collect that data.

Eric Guthrie: I support that. The issue around the value of the transaction on the bus comes back to the issue about economic activity and people being no better and no worse off. That argument can be applied to day returns, 10-journey tickets, season tickets and so on, depending on the market. There is definitely scope for that to be done.

Scott Allan: As Valerie Davidson said, there is a problem if there is no bus service. An example of that might involve a shift worker whose shift starts before the bus service starts. A local scheme that is attached to employability could address that problem by, for example, funding a taxi to get the person to work and enabling the person to get a bus back. That would be a flexible way of using the money.

Eric Guthrie: There was probably a problem with regard to security in the early days of the scheme. However, that is being addressed in the work that is going on—Valerie Davidson mentioned smart cards. Transport Scotland, working with the industry, is tackling that issue head on. I do not think that the problem is anything like as significant as it used to be. I do not have an evidence base behind that; it is just my own observation. A lot of work has been done to try to address that issue.

Adam Ingram: We heard some concerns about freight facilities grants earlier. If they are not to continue, should there be a replacement scheme?

Eric Guthrie: Yes. That is one of our disappointments with the draft budget. Like other RTPs, we have done some work with the private sector—Highland Spring Ltd in particular, in our case—to develop a case for a freight facilities grant that would take a significant number of lorry miles off our roads. It is disappointing that the freight facilities grant appears to be all but gone.

We have been advised that the future transport fund might be used to replace the FFG, but I refer you to the comments that I made earlier about the value of that fund and the fact that it will cover a range of sustainable transport and energy areas of spend.

11:00

When the fund was reduced in the current year, about 19 projects came forward in response to the call for applications for the limited amount of funding. I think that that demonstrates that there is a market for the FFG in the private sector, if the scheme is done right. There is an issue with the bureaucracy of the previous scheme; certainly, freight operators that we work with in a freight quality partnership tell us that the scheme was far too bureaucratic and time consuming. However, that is a process issue that I am sure could be addressed.

The short answer to your question is yes—we would like a scheme that is something like the FFG. If you wanted me to put a value on it, I would say that around £10 million a year would be reasonable.

Adam Ingram: I understand that Network Rail's initial industry plan has an option in it for a Scottish freight network fund, which would be worth around £50 million, which just happens to work out at around £10 million a year over the next control period. Would that be an option for filling the gap?

Eric Guthrie: I do not have any details about how that fund would operate but, in my view, anything that could be made available to encourage the private sector to consider opportunities to shift from road to rail would be a valuable additional tool to have in relation to the national transport strategy.

Dave Duthie: I think that, next year, £6.5 million will go into the future transport fund. This year, £7.5 million went into safer streets, cycling and walking and £2 million went into the freight facilities grant. For the coming year, therefore, we seem to be looking at quite a substantial reduction. There is a suggestion that that fund will increase, along with the warm homes fund, to include £15.5 million and £37.5 million in the subsequent years. The question is, how much of that will go into the transport element and delivering what we see as an important provision?

I welcome the commitment—if that is what it is—with regard to the rail sector. There is an element dealing with movement by sea, as well. We have to find a way of supporting the spending, because the benefits to the environment in terms of carbon reduction are quite significant, if we can get the approach right. It is not continuing funding; it is a one-off sum to deliver a benefit that will then run on a commercial basis. We have been supportive of that, and think that Government should perhaps think further about it.

Malcolm Chisholm: The Government has ambitious aspirations for the role of transport policy in contributing to Scotland's low-carbon future and it published a report on proposals and

policies earlier this year. To what extent are those proposals and policies aligned with the draft budget?

Eric Guthrie: Everybody is looking at me. My view is that it is not possible to tell from the draft budget just how much commitment there is in that regard. For example, as Dave Duthie just said, we do not know how much of the future transport fund will go into sustainable transport measures. The report that you are referring to suggests that the low-cost schemes that encourage behavioural change around walking, cycling, the use of public transport through park-and-ride facilities and so on have the biggest benefit in financial terms in relation to carbon reduction. Those are the areas for which it is difficult to see continuity of funding in the draft budget.

In addition to the figures that Dave Duthie just mentioned, the support for the sustainable and active travel budget will also reduce next year according to the draft budget, so there seems to be a significant reduction in the amount of funding that is going into the softer measures that the report says have the greatest potential in carbon reduction. The sustainable and active travel budget will go up in year 2, but will drop back in year 3. That comes back to the point that was made earlier about continuity of funding, focus and delivery.

Valerie Davidson: I add merely that although we clearly welcome the funding for low-carbon vehicles and so on, the targets that have been set are quite challenging, particularly when you consider the fact that low-carbon vehicles are substantially more expensive than your average normal vehicle; it costs at least 50 per cent more to buy a low-carbon bus than it does to buy a normal one. That will clearly be a challenge for us.

I was disappointed that the recent announcement of the plugged-in places funding specifically excluded vehicles including buses, which would have allowed bodies such as SPT or even the RTPs to purchase vehicles. SPT has already invested in low-carbon buses and electric vehicles as part of its commitment to low carbon, so it was clearly disappointing when the recent announcement specifically excludes those vehicles, as our approach is to seek funding from other places.

Malcolm Chisholm: The situation is quite difficult because that funding is not yet transparent. You have referred to support for sustainable and active travel falling from £25 million to £16 million, but we have been given the level 4 figures and it is still only split into capital and current grant. It is hard to know how all the things to which you have referred can be included in that cut budget.

Another issue to throw in is the 10 per cent modal-share target for cycling, which is supposed to come from the sustainable and active travel budget, so will the £16 million budget for sustainable and active travel allow the realisation of the cycling ambition, quite apart from all the others? Low-carbon vehicles and walking also come from that budget, so it looks as though it will be under a bit of strain.

Dave Duthie: Active travel is a transport issue, but it is also a health issue and there will be environmental benefits through carbon reduction. We have done a lot of work to consider how communities work as regards walking and cycling, where the constraints are and where housing developers can add value to the walking and cycling networks around the Highlands and Islands. We have done it for our 14 key settlements.

We should consider that when we think about the developers coming in. Developers still want to build housing; they might not add value but they can do something; we could work in partnership with them when they build developments and could ask them to fund 50 per cent of the cost of additional cycling access to the nearest shops, rather than 100 per cent. We can still get the developments that we need. As well as encouraging movement from a housing development to be active travel, rather than in-car travel, we could create new structures of active travel around communities. It is fundamental that we do that because we are so far behind the rest of Europe. We must catch up.

Valerie Davidson: I will add one comment. Obviously, sustainable travel and cycling will be under significant pressure. SPT has been positive—we have put a lot of effort and money into it—and we are not only encouraging our partners to engage in producing cycle lanes and cycle schemes but are, as part of our active travel planning, going out to employers and encouraging them to participate in cycling schemes to help their employees in cycling to work by offering them route maps and assistance with purchasing cycles. Help with purchasing cycles has been hugely successful and has encouraged people to use cycles as a means of transport, but other policies have then made it far more expensive for the individuals involved: it is now taxable, so SPT is hearing people say that it is no longer attractive. Conflicting policies are coming into play. I realise that one is a UK matter and one is a Scottish matter, but we must take them into account when trying to encourage people to use cycles and cycle paths. At a time when funding for active transport is being reduced, we need to use every lever we can to get people into it. It is a difficult balance.

Neil Findlay: Just as a cover-all question, given the operation of the SFT to date and the limited number of projects that seem to be coming through, do you have confidence in that organisation's ability to deliver for your industry?

That silence will do as an answer.

Dave Duthie: It is generally said that the Scottish Futures Trust will work better in large capital projects. Today, we have been trying to demonstrate that achieving many small improvements could also have a significant benefit. I do not have direct experience of the Scottish Futures Trust and what it has achieved, but I do not think that it has a remit in the type of things that we are talking about, such as active travel and small park-and-ride schemes—the smaller projects that can make a significant difference in terms of modal shift, rather than the large motorway projects or large schemes in general.

Valerie Davidson: Obviously, SPT engaged with the SFT as part of the modernisation of the Glasgow subway, which will cost £300 million over the next 30 years—the bulk being in the next 10 years. When we engaged, the SFT had no pot of funding; it did not have the £250 million that is suggested in the budget. After we had talked it through, the SFT's advice to us was to use traditional funding.

I am not sure that I am qualified to say whether I have confidence in the SFT or not. We went through the options, and it steered us towards traditional funding. Your question might be better posed to people who have had more involvement with it.

Neil Wylie: Our interaction has been limited to advice. The SFT operated as a gateway for us, and it was useful.

The Convener: I think that that, perhaps more than you suggest, is a role of SFT.

I have a question for David Duthie and, perhaps, Valerie Davidson. What are the implications of the budget for lifeline air and ferry services, and for support for ferry services? We will come back to this issue in the ferry services review, but is the ferry budget consistent with the Scottish Government's manifesto commitment to extend the road equivalent tariff? Little capital funding appears to be available for vehicle replacement in the Caledonian MacBrayne fleet. There is also the question of air discount support for business travel.

Dave Duthie: For the ferries, the revenue support line is reasonably consistent over the next three years, which is encouraging.

The suggestion in the budget document is that the manifesto commitment on the RET will be

taken out, and that funding will come through efficiency savings in delivery of services elsewhere. There is the Clyde and Hebrides ferry services network and the northern isles network, and I think that it is hoped that savings made through the tender process for the northern isles this year and for CHFS next year will deliver savings that can then be reinvested in extending the RET network. The commitment was to consider extending it over the whole west coast, for the CHFS network, but not to extend it to the northern isles at this stage. That is doable, depending on what comes out of the current tendering processes for the northern isles and next year's process for the CHFS network.

The issue of vessel replacement is of more concern. The capital funding lines over the next four years are relatively small not only for ferries, but for piers and harbours. I am not sure what the Government intends to do. The Scottish ferries review is on at the moment; we have not seen the plan, although I understand that the draft will be out by the end of the year. It will be useful to see it. The average age of the vessels in the fleet at the moment is 29, and it is generally accepted that 35 years is the longest a ferry should be kept running because the costs of maintenance become disproportionate after that. That will be a significant challenge, and nothing in the budget indicates how that challenge will be met out of capital funding. I think that the Government is considering alternative mechanisms for funding replacement vessels—be it through Caledonian Maritime Assets Ltd, or through putting stand-alone routes out to tender and asking the operator to supply the vessels. We do not know what will happen; the answer should be in the ferries review. At this stage, there is no detailed information in the budget that would allow us to reach a conclusion. We are where we are.

On air services, the HIAL funding will continue at a reasonable level, although it is obviously not sufficient for it to take on any additional areas of work. An airfield in Oban could become part of the network, as could one in Skye. However, given the constraints in budget, that is liable to have to wait until things are looking rosier. The market for air transport tends to increase—that is happening worldwide, but we have not seen the follow-on effect into our region as yet.

11:15

You mentioned the air discount scheme. There has been an impact on the network of air services in the Highlands and Islands. Members might remember that approximately 10 years ago the Highlands and Islands voluntary partnership for transport considered the potential for a public service obligation network to deliver set levels of

service to ensure that the islands could benefit from a reasonable level of access and would not end up having to rely on a commercial service being available. What came out of that was the ADS, which seemed to work reasonably well in the early years. However, with the removal of the business element, the service between Inverness and Orkney has been reduced quite significantly, with the result that, because of costs, people from Orkney are travelling to the central belt by road, rather than taking the air trip. That is not very sustainable environmentally, because although one tends to think of aircraft as not being environmentally useful, travel on the type of planes that we use—turboprops—is better, if the planes are reasonably full, than driving a car or going on a ferry.

We want to maintain a level of service. The take-up of ADS has reduced quite significantly. We will wait to see the figures from the Government, which will show the effect at the end of the year. We certainly feel that there is a need to sustain the services. By removing the business travel element, the support to provide the commercial service, which allows that service to be retained, has been reduced.

A PSO service covers business, the social element and health. The ADS, which is an alternative funding mechanism, does not include health and now it does not include business, so it is really just about the social element. There is therefore a question to be asked about how the Government considers that ADS should develop within the Highlands and Islands. We and our member councils will be looking at that as we move forward.

Valerie Davidson: I will not add to that, other than to say that we await the outcome of the Scottish ferries review, which will be an important document. SPT funds concessionary ferry travel, which is, it is worth noting, the one big cost area that is substantially on the increase. There is a nettle to be grasped in terms of whether that goes into the ferry service tenders—we will have to deal with it. We have introduced a fare, not to stop usage but to fund that element. There is certainly a greater propensity to travel than there was previously—certainly island to mainland—for various reasons, which I suspect are to do with hospital access and so on. We will need to get our heads round that.

The Convener: Thank you very much for coming. That evidence has been very helpful to our scrutiny of the budget. I briefly suspend the meeting to allow a change of witnesses.

11:18

Meeting suspended.

11:22

On resuming—

The Convener: We continue our evidence on the draft budget. I welcome our second panel of witnesses: Amy Dalrymple, policy and research manager for the Scottish Chambers of Commerce; Gareth Williams, head of policy for the Scottish Council for Development and Industry; and David Lonsdale, assistant director of the Confederation of British Industry Scotland.

I ask each of the witnesses to give me their thoughts on the draft budget for transport and infrastructure spending from the perspective of their organisations. Will it help to deliver economic growth?

Amy Dalrymple (Scottish Chambers of Commerce): The Scottish Chambers of Commerce welcomes the redirection of revenue spending to capital spend. Investing in infrastructure is one of the biggest things that the Government can do to help the economic recovery in Scotland, because it is one of the biggest things that it can do to help our members' businesses to optimise their performance and drive the recovery. The private sector is where the potential for growth exists in Scotland so, if the Government is doing its bit to support that, we welcome that.

Transport is a big priority, but there are other infrastructure and capital priorities for our members. We also welcome the commitment to the house building fund, which will help to maintain the construction sector. We also look forward to working with the Government on broadband infrastructure. I know that that does not necessarily come under the infrastructure budget but, as far as our members are concerned, broadband is becoming just as essential to enabling Scottish businesses to operate as ensuring that our roads and our railway network work properly.

David Lonsdale (CBI Scotland): Building on what Amy Dalrymple said, I can say that we are very positive about the Scottish Government's announcements in the budget about transport infrastructure. We look forward to the refreshed infrastructure investment plan, which is coming up in the very near future, and we have made representations to ministers on that. In many respects, we agree with Amy Dalrymple. We are on the same page as the Scottish Government with regard to the projects that it wants to see, and we have some ideas for the infrastructure investment plan and the next steps.

The second part of your question asked for an overall reflection on the budget and whether it will help growth. In our submission to the committee, we pointed to a number of positive areas in the budget, such as infrastructure, skills, business support and enterprise areas or zones. We think that it fell a bit short in some areas, such as planning, and there were one or two tax rises, which we think will hold back commercial and private sector investment. That is not a good thing at a time when we should be encouraging not just public sector investment in the economy but private sector investment.

Gareth Williams (Scottish Council for Development and Industry): We believe that the economic challenges that are faced by Scotland are such that infrastructure investment should have an even higher priority at this time. We welcome the steps that have been taken in the budget to reflect that position. We need to ensure that all parts of Scotland benefit from improved accessibility and connectivity, and we need to align our investment closely with the needs of the economy, to provide a short-term boost, to maintain an increased business confidence and to provide long-term economic benefit. The UK Office for Budget Responsibility has shown that investment in infrastructure is one of the best ways to boost gross domestic product. We have made our views known to the cabinet secretary on the infrastructure investment plan and welcome the positive way that that was taken forward, although we share some of the concerns, not only on the wider budget but on this specific portfolio, that were raised in the previous evidence session—I am sure that we will touch on those concerns.

Malcolm Chisholm: In some ways, this follows on from what you have said, but will you pick up the theme of the effect of the transport budget on the economy? The stated view of the Scottish Government and others is that it will help to kick-start the economy. In our first evidence session on 5 October, the two professors giving evidence made the striking—given what might be called orthodox opinion on the matter—argument that there is no empirical evidence that investment in transport infrastructure helps to grow the overall economy. It would be interesting for us if you would comment on that. Professor Tom Rye, for example, said:

“You can find a lot of evidence that investing in specific pieces of transport infrastructure will move economic activity around, but trying to find evidence that it will grow the economy overall is really difficult”.—[*Official Report, Infrastructure and Capital Investment Committee, 5 October 2011; c 166.*]

That was striking evidence, but I imagine that you might question it.

David Lonsdale: Certainly, the CBI at a UK level carried out a study a couple of years ago with

a contractors group that found that there is a direct correlation between every pound spent on transport infrastructure and just short of £3 in GDP. I would be happy to send that to the committee. The Eddington review of four or five years ago on transport at a UK level pointed out that the best transport infrastructure schemes delivered between £5 and £6 of GDP enhancement for every pound invested. I am not offering to research that and print it off for you, but your clerks might want to have a look at it. The CBI at a UK level published an infrastructure survey of members a few weeks ago, in which four out of five members said that transport infrastructure is critical to where they decide to locate business investment and expansion. I would be happy to furnish the committee with a copy of that report.

11:30

We therefore believe that transport investment has significant benefits for GDP. There are issues to do with connectivity, to which Gareth Williams referred, and with trying to minimise maintenance bills in the future. Traditionally, when there is a recession there is a squeeze on public finances—we see this at a UK level—and capital expenditure is often one of the areas where it is deemed, for understandable political and other reasons, that savings can be made. However, we do not think that that is the right approach, which is why we have been supportive of the Scottish Government's approach to try to recoup some of that and to use innovative funding solutions to spend more on capital expenditure. As I said, I am happy to furnish the committee with the reports from our side of the fence.

Gareth Williams: We helped to launch a recent report by Cushman & Wakefield on the competitiveness of European cities. It involved a survey of 500 business leaders on what they regarded as the priorities for making investments. The top one was accessibility to markets and the fourth one was transport. Both of those have been consistently high priorities in that survey over a number of years.

The Office for Budget Responsibility says that there is a multiplier of one for one on infrastructure investment—that is, an increase in Government investment of 1 per cent is estimated to boost GDP by 1 per cent. At a more anecdotal level, we know that Sky, which is one of Scotland's biggest private sector employers, is delighted with the increased labour market that it has as a result of the Airdrie to Bathgate rail scheme. The question also arises whether Amazon's investment in Fife would have taken place if it was not for the infrastructure investment in the new Forth crossing and the certainty that Amazon will have access to

markets around Scotland. We would take issue with the professors' argument.

I have one more example before I pass on to another speaker. Investment and regeneration have been stimulated in Lille as a result of the investment in high-speed rail there.

Amy Dalrymple: I, too, would question the professors' argument, and in that regard cite the reviews to which Gareth Williams and David Lonsdale referred and the Eddington OBR review. I have been speaking to our members about the issue, and infrastructure investment is their top priority. We asked what their priorities were at the time of the most recent election, and then we went round again and asked them what their priorities were for their local areas and nationally and internationally to ensure that they can expand. They told us that they require transport infrastructure as a basis for their access to other markets, whether in Scotland, the rest of the UK or beyond the UK.

Prioritisation within transport infrastructure investment is important, though, as some infrastructure investment will create more bang for its buck than other such investment will. It is also important that, when looking at the infrastructure investment plan, which it is doing at the moment, the Government carries out that prioritisation carefully and in consultation with stakeholders to find out what they regard as most useful and crucial for their development.

I agree that it was crucial for Amazon's investment in Dunfermline that it knew that the Forth replacement crossing would go ahead and that there would be a reliable transport link to Edinburgh and the rest of Scotland. For the expansion of energy investment and economic development to take place in the north of Scotland, there must be transport investment, which is crucial in attracting new business to different areas of Scotland and in enabling businesses that are already there to develop and expand and help to grow Scotland's economy.

Malcolm Chisholm: That is very helpful. I am sure that we will want to look into the issue further, given the different views that have been expressed.

A number of the capital projects are to be paid for using non-profit-distributing finance and Network Rail's regulatory asset base funding. I am interested in your thoughts on those two funding mechanisms and, in particular, on whether the private sector is attracted to the NPD model.

Gareth Williams: It is right, when there is investment that will benefit a number of generations, that we look to spread the cost of the investment over a number of years. Failure to do

so would leave a legacy of assets that are ageing, more expensive and higher carbon.

The jury is still out on the NPD model. We are still looking for clarity on exactly how it will operate in relation to transport. On Network Rail's RAB, we have to be conscious in Scotland that that is a UK borrowing mechanism. The projects that we want to use it to fund must have a good business case relative not just to projects that we might look at in Scotland but to projects in the UK as a whole.

Amy Dalrymple: Our view is pretty positive. Bearing in mind that we still need to see how the NPD model will play out and what the consequences are down the line and that we are still at the very beginning of the process, we welcome the Government's willingness to explore alternative funding. In times of constrained budgets, the onus is on the public sector to do that. There being such a need for investment, it is welcome that all the different options are being explored. Although it has its own constraints, the private sector is certainly willing to support the Government in doing that.

House builders have pension funds and can work together with the Government to ensure that the investment in house building happens. It is maybe a little more difficult with transport, because the returns are not quite so immediately obvious, but that does not take away from the onus to explore the options and to make them work the best they can. We need to learn lessons from what has gone before, but that work seems to be going on. We would welcome further engagement across the board so that all the different sectors are working together to ensure that the impact of the public pound is being maximised.

We would say that the SFT had a weak start, but it seems to be going great guns now. We are impressed with how it has developed; it has found its role as a conduit for channelling public investment and seeking to maximise the impact of the investment. When public funds are constrained, it is important that a body is doing that. The private sector is absolutely willing to be engaged and to explore with the SFT how different models might work, whether it is the NPD model or other investment models.

David Lonsdale: Our members want projects to happen. Frankly, how they are funded and organised is a secondary issue. There are differences between the PFI, PPP or NPD mechanisms but, in some respects, they have a parentage that one could plot on a graph. At the end of the day, it is about supplementing the existing constrained traditional capital expenditure programme with private money. We think that that is a positive thing, and we like the switch from revenue to capital. There are other innovative

funding models out there, such as tax increment financing and the national housing trust model.

As we mention in our submission and as we have put forward to the Government previously, we think that there are more things that the Government can do in its overall spending to save money. I do not know whether we will come to Scottish Water at any point, but we say in our submission that we think that there are opportunities to make Scottish Water less reliant on the public purse, which would free up additional sums for capital investment.

These are often political choices but, fundamentally, what our members want is for projects to happen, particularly in transport but also in broadband, connectivity and energy. Although there can be a lot of understandable political debate and scrutiny of funding mechanisms, the overall approach, which is to see what alternatives there are to complement the existing traditional capital expenditure programme, is the right one.

We were one of the first organisations to give the SFT public support. We have tried to work with it over the past few years. It is a very different beast from what was originally envisaged. It is trying to get different parts of the public sector to work together with the private sector and look at the whole basket of alternatives. We think that that is sensible and laudable and we support it.

Adam Ingram: What are your views on the impact of the budget on delivery of the strategic transport projects review? Is it important to progress those projects or do you have more urgent or important transport priorities than are contained in the STPR?

Gareth Williams: To an extent, the budget is still dealing with some projects that pre-date the STPR. We still have the Aberdeen western peripheral route and Borders rail, which did not feature in the STPR. We are beginning to move forward with the Forth crossing and EGIP. However, as was mentioned earlier, a couple of the schemes in the STPR that had been highlighted as more immediate priorities, such as the Highland main line and the Aberdeen to Inverness line, do not particularly feature in the spending review and look as if they will be into Network Rail's next control period.

We were broadly supportive of the projects in the STPR, and we think that it might be time to look at it again. There are areas that were missed out of the STPR that might now have a higher priority. For example, growth in the whisky sector has perhaps exceeded what was anticipated at the time. That growth is putting pressure on the A95, which did not feature in the STPR. We might need to look at that again or to consider whether we

could move more by rail from the north to the central belt. It might be time for a refresh.

David Lonsdale: One of the challenges is that we have had the STPR and the iteration of the national planning framework, and the refreshed infrastructure investment plan is coming up. The first of those focuses just on transport while the others take in other elements, such as energy. It can be quite difficult to keep abreast of what is happening.

The refreshed infrastructure investment plan will give us a clearer steer about what is going forward post-2016. We have been very supportive of the main projects that are going forward at the moment. We have taken that as a given in our submission on the infrastructure investment plan and we have put forward a number of other ideas, such as expanding the M8 and dualling the A9 north of Perth up to Inverness. It is one that we keep a close eye on, obviously. It will be interesting to see whether, because of funding constraints, anything will have to be taken out of the infrastructure investment plan—it is after all a 10-year programme—and whether it has anything to say about road and rail and, indeed, Scottish Water.

11:45

Amy Dalrymple: Although we welcome the concentration on EGIP and the Forth road crossing, which we feel are essential, we have also used the infrastructure investment plan review as an opportunity to emphasise the importance to our members of improvements to the Highland main line and the Aberdeen to Inverness line. We have had various discussions with the Scottish Government on how the projects might be taken forward. We appreciate that lack of resources is a real issue; that there is only so much money around to pay for only so many projects; and that, as a result, you need to prioritise. We realise that the infrastructure investment plan rather than the budget document might be the place for this, but we need clarity about the priority that is being given to the big projects in the Highlands, other road projects such as the A95, A82 and A9 upgrades that our members have said are really needed, and various regional projects. We need to list and prioritise all those projects and set out the circumstances in which they would go ahead and when that would happen to ensure not only that businesses can make plans but that skills funding bodies can find out what skills are going to be required to make the construction projects happen. If there is certainty about the Government's commitments, businesses will know that a particular project is not going ahead not because the Government does not think that it is important but because it does

not have the resources. That question needs to be answered, and we are looking forward to the refreshed infrastructure investment plan providing clarity so that we know what to expect in subsequent budgets.

Adam Ingram: Is it not important to get on with investment instead of waiting to go through the various statutory processes? There has been much talk of transferring resources to shovel-ready projects to stimulate activity in the current climate. Is that what you are looking for in the refreshed IIP? Do you want the focus to be not so much on the 20-year horizon of the STPR but on the current economic situation and the need to stimulate economic activity?

Amy Dalrymple: Given that much of the feedback that we have had about infrastructure in the past is that there has not been enough forward planning and that patch-up solutions have been necessary, I think that we need that 20-year horizon to provide clarity, certainty and a planning structure for businesses and skills delivery. We would expect to see—indeed, are looking forward to seeing—detail for the next five years about the shovel-ready projects that the Government can go ahead with. We would like a few of those to get off the ground to stimulate the national economy, provide jobs and improve pockets of infrastructure to stimulate local economies. We need to strike a balance between immediate investment and planning—in other words, simply getting on and doing things—and giving strategic, large-scale projects their due place. I do not think that we should be deciding not to go ahead with those in order to invest in smaller projects that might be easier to deliver. They both have their place and are important.

Malcolm Chisholm asked about the effect of infrastructure investment and its value for money. Large-scale projects and small-scale projects provide value for money in different ways, so it is important to consider and prioritise both types and to see them in the same budget basket.

David Lonsdale: Adam Ingram has put his finger on the fundamental tension—the difficult choice between a short-term fix and investment for Scotland's long-term economic capacity. We said in our budget submission that, if opportunities arose to bring expenditure forward to the early part of the spending review period, they should be capitalised on. I know that the Scottish Government has done that to an extent in infrastructure spending in the past two or three years and that the UK Government is taking action in a similar sphere.

Short-term fixes for the economy go much wider than just construction or infrastructure investment. Our submission to the committee talks about prompt payment—paying suppliers in good time—

on which positive moves have been made in the public sector north of the border. On tax rises that hold back commercial investment, in this era of constrained public spending, the Governments north and south of the border have tried to tap the private sector for additional money. That is understandable to balance budgets, but that can have an impact on private sector investment.

Adam Ingram has put his finger on a difficult conundrum. We understand that the infrastructure investment plan will be for the 10 years post-2016, so it should be about the next tranche of projects that will take us forward after the Forth crossing, the Aberdeen western peripheral route and so on.

Adam Ingram: If a plan B emerged south of the border that resulted in extra capital resources being made available to us, would the argument be for converting that into shovel-ready projects right away?

David Lonsdale: I see no problem whatever with that. I am not necessarily a communications and marketing guru, but I suspect that saying, "Here's a plan B," is not the most attractive option to people. The term "plan A-plus" might be more attractive.

Gareth Williams: We would support additional capital investment from Westminster and increased borrowing powers under the Scotland Bill. Our members debate whether we should prioritise short-term funding for housing, which has more of a local economic impact and a more widespread impact, or funding for transport, which might boost GDP in the longer term. On balance, we think that we cannot lose sight of the opportunities for Scotland, so we must align our investment with growth in the energy sector and in exports. We must not lose sight of the targets in the national performance framework.

If additional money became available from Westminster, I am not sure whether transport projects would be shovel ready. In those circumstances, the opportunity might arise to target more funding on housing. At the same time, we could take forward with the resources that we know are available the big transport projects that we have talked about.

The Convener: I am conscious that time is going on, so I ask people to ensure that questions are concise and that answers are a bit more concise. If the witnesses agree, they can just say so, unless their organisations have different views. Perhaps we can move on a bit more quickly.

Neil Findlay: I will ask one precise question. It is interesting to note the chasm between the representatives of the business community, and the academics and consultants who gave evidence to the committee on what happens with

spending on transport projects. We need to look further into that.

I am interested in the railway industry. We have heard in evidence to the committee that, based on passenger numbers and kilometres travelled per passenger, the rail industry is overfunded. I wonder about rail franchising. Is there an opportunity to have a different model of operation of the railways that would save a significant amount of money? Various parts of the sector take a profit from the money that goes into the railways. Do you agree that we could have a model of ownership or operation that would cut down on that?

Gareth Williams: The McNulty review of the costs of the railway industry looked at that issue and came to the view that the current model of franchising is not the reason for the higher costs in the UK compared with the rest of Europe. That would apply in the Scottish context as well. The franchise tendering process is an opportunity to look at the issues, but we believe that the rail service in Scotland is very good and is getting better and we would take some convincing that a different model would improve it further. We are more supportive of increasing the length of the franchise and thereby attracting additional investment in infrastructure from the private sector, which is something that the UK Government has been pursuing.

Amy Dalrymple: Absolutely. In a time of constrained public sector budgets, it is important to try to attract alternative sources of funding, as we have discussed. We have an opportunity to use the franchise tendering process to try to do that and to attract extra investment in Scotland's rail network. I hope that the opportunity will be used. It will be interesting to see how that pans out.

I do not see how moving to a different model would mean that funding could be used more efficiently. We want to attract alternative sources of private funding, so we should shape what is on offer under the franchise tendering process in such a way as to do that, whether that involves more conditions around—

Neil Findlay: Maybe I can be helpful on that. If less money were to go to shareholders and more went back into the industry, that might assist.

Amy Dalrymple: We are trying to lever private sector funding into the running of the network. That is the opportunity that we are talking about. Gareth Williams mentioned using the franchise to try to do that. It is difficult to see how we could lever in alternative sources of funding if we were to move to a model in which a private company did not deliver the franchise, because we would not be attracting investment from that private company.

We need to model the franchise so that it attracts the most investment, whether that is in improvements to existing services, adding new ones or whatever. That might involve lengthening the franchise in order to make it more attractive for somebody to invest.

We need to maximise the bang for our buck and maximise alternatives to Government funding for our infrastructure. Using and shaping the franchise properly seems to us and the individual chambers of commerce to be the best way to do that.

12:00

David Lonsdale: Our fear about Neil Findlay's suggestion is that we might go down a similar ideological cul-de-sac to that which we are already in over ownership of Scottish Water, for example.

The Convener: Jamie Hepburn's question might be relevant here.

Jamie Hepburn: I am not sure that it will be entirely relevant to that last comment.

Convener, in echoing your declaration of having known Eric Guthrie in a previous life, I declare that Amy Dalrymple and I used to serve on the University of Glasgow student representative council an increasingly and depressingly long time ago.

We are talking about the rail industry; Amy Dalrymple mentioned that the Edinburgh-Glasgow improvement programme is very important for business. Will the witnesses set out why they think that is true?

Gareth Williams: Earlier I referred to a survey on the competitiveness of European cities. Edinburgh and Glasgow, as relatively small cities, featured quite low in that survey. Given the growth of megacities and the rebalancing of the world economy, we have to make sure that Edinburgh, Glasgow and the whole of central Scotland can function much more effectively as one economic unit. The EGIP will play into that with reduced journey times, increased capacity and increased opportunities for the two cities and for Stirling and all the towns in between. There might also be the opportunity to cascade rolling stock up the routes to the north and, ultimately, to electrify the entire central Scotland network and go on up to Inverness and Aberdeen. We see that as being one of the key ways of reducing carbon emissions from the rail industry as well as of improving services and—while fuel costs are rising—of lowering costs.

David Lonsdale: I am not sure whether witnesses have to declare their interests. I live in Dunblane, I work in Glasgow and am in Edinburgh several times a week. I use the train all the time to get to meetings like this and to see members.

Gareth Williams has set out very well the reasons why we support the EGIP.

Amy Dalrymple: The EGIP is also important to the towns around the central belt. It is not just about the two cities but about making sure that the whole central belt can benefit economically from better connectivity and better access from the rest of the UK to each city. People come from London to Scotland and they arrive in Glasgow or Edinburgh and will often have to do business in both. We want to make sure that it is easier to do business in that area of Scotland where so much of Scotland's economic activity takes place. The EGIP is about optimising the potential of the central belt of Scotland to drive the economic growth that we need.

The Convener: I should point out that 26 per cent of gross value added is generated by the city of Aberdeen. Let us just put the situation into perspective.

Amy Dalrymple: I will come on to oil and gas later.

Gordon MacDonald: I will move to the national travel concession scheme. The policy is very popular but, given that the cost has increased year on year and is due to hit £192 million next year, what is the business community's view on the amount of money that is being spent on the scheme? Is it value for money?

Gareth Williams: Our view is reflected in what the Beveridge report—the independent budget review—and the Christie commission said. We need a general debate about universal entitlements and their sustainability with an aging population and restrictions on the Scottish budget. That debate must be evidence based. We look to the Scottish Government to identify the costs and the projected future costs, and to say why it sees efficiencies in organising such schemes universally rather than in taking a more targeted approach.

We have concerns about the growing costs of concessionary travel and the impact on other aspects of the transport budget. We want to consider some of the issues that were discussed earlier about the balance of benefits between cities and rural areas and whether we need to tighten the eligibility criteria. For example, the age of eligibility could be increased alongside increases in the retirement age.

Amy Dalrymple: We share the view that several universal benefits, including concessionary travel, need to be examined to find out what they provide for Scotland. The Government's stated top priority is sustainable economic growth. All spend must be measured against that priority to find out how it contributes to delivering that objective. The Government has other priorities and aims,

although we argue that health and education spend have an impact on Scotland's economic growth. Everything can be measured against that priority.

That ought to be done with the concessionary travel scheme. If the scheme makes little or no contribution to economic growth, a decision needs to be taken as to whether other priorities are important enough to justify sustaining it. The scheme must be considered in that balanced way. It was born at a time when money was less tight. I like the suggestion about targeting the scheme at increasing employability, rather than just enabling universal travel.

Adam Ingram: What are your views on the importance of modal shift of freight from road to rail or sea, and on the future of freight facilities grants or an equivalent scheme?

Gareth Williams: That is an important issue. The schemes that have been run in Scotland have been relatively successful compared to those in the rest of the UK. There were comments earlier about bureaucracy, but the feedback that we have had is that the bureaucracy was less in Scotland. There are various opportunities including, for example, in the whisky sector, which I mentioned. That is why we lobbied for the Government to retain the freight facilities grant in the previous budget and why we very much regret that it has not been continued in the current one. We hope that scope can be found in the future transport fund to replace the scheme, although there will be a hiatus. However, it is not clear whether the Scottish Government intends to find money from that source.

Earlier, Adam Ingram mentioned Network Rail's industry plan and its bid for £50 million within that. However, that is not likely to kick in until, I think, 2014. There is a danger that we will miss out on pretty big opportunities in the short term, which will affect our progress towards the 2020 climate change targets and increase congestion on our road network.

Amy Dalrymple: The removal of the freight transport grant sends a difficult and confusing signal to business. There is a lot of talk about shifting Scotland towards a low-carbon economy, but the freight transport grant has been removed. Business does not really know where it stands. We need a stronger and more coherent narrative about the low-carbon economy for business so that it knows where it fits in and how it is supposed to contribute to delivering that. Nobody is against a low-carbon economy, but although the top-line vision is clear, how it will be implemented is not necessarily clear to business. Examples including the changes to the freight transport grant muddy the waters even more.

David Lonsdale: In our written submission to the committee, we highlighted our position and our disappointment with the cuts.

The Convener: Amy Dalrymple talked about the low-carbon future. Is the Scottish Government doing enough to encourage the private sector to develop electric-vehicle infrastructure in our cities and to encourage fleet owners to invest in low-carbon vehicles?

Amy Dalrymple: The Government is working with sectors that it has identified as being key to developing new low-carbon technologies. You mentioned transport; waste processing is another. My point was more about the business sector in general. How can someone who runs a service business or printing business contribute? The Government is sending signals that it wants to develop a low-carbon economy that involves businesses, but it is working only with some sectors of the business community on the specifics of how that will be implemented. We would welcome some work on how the broader business community can work with the Government on contributing to achieving a low-carbon economy.

David Lonsdale: The convener put her finger on what is needed on low-carbon vehicle infrastructure. The Government is putting in pump-prime funding, which is helpful to get infrastructure in place and to create more of a market, but an exit strategy for the taxpayer needs to be allied to that.

The Convener: Some people, including our next panel of witnesses, might argue that the Government should spend less on road and rail infrastructure and more on cycling and walking and that it should revisit traffic demand management in some form. What is the business community's view on that?

Amy Dalrymple: Road and rail infrastructure is key to the development of Scotland's businesses. We must be realistic and accept that if we want economic growth, that infrastructure needs to be maintained and improved.

Investment in walking and cycling is great for achieving targets on climate change. We helped to deliver the healthy working lives project with employers, which promoted the benefits of active travel. We recognise that there are economic benefits to employers from having a healthy workforce. We are not against that. However, on how the Government prioritises its infrastructure investment and what it seeks to achieve with it, the projects that we have all used as examples, that we used in our written submission and that the previous panel of witnesses mentioned, all represent gaps that need to be filled to make Scotland's economy speed up and absolutely go.

We cannot move away from road or rail investment. That infrastructure is absolutely crucial to ensuring that Scotland moves forward and climbs out of recession.

David Lonsdale: On the front page of our submission, we highlight our support for the previous Enterprise and Culture Committee's aspiration for a greater overall percentage of Scottish Government expenditure to be spent on infrastructure investment, particularly transport. That refers to an earlier question. I appreciate that it can be a tricky destination to get to, but we urge the committee to question ministers on whether they share that aspiration and whether they are prepared to set out a timetable for it.

The convener mentioned demand management. There are different elements to that. If one of them concerns pricing, I guess that we are open to that debate, as long as it is couched in terms of additional capacity.

Gareth Williams: Ultimately, Scotland is a small and open economy. Over the next 10 years, if we are to recover from the position that we are in, we must increase private sector growth and have higher net exports. That means that we need to invest in rail and road infrastructure. We have not touched on air routes: we would like the Scottish Government to provide more support for the development of international air connectivity from our major cities, to help to drive the exports agenda. We have been in favour of demand management on roads, and we are in favour of a national road-user charging scheme: we see that as being a way of delivering investment back into transport infrastructure and maintenance, which is a significant concern, given the serious winters of the past two years.

The Convener: Thank you all very much for your evidence, which has certainly helped us in our budget scrutiny.

12:16

Meeting suspended.

12:19

On resuming—

The Convener: We will move swiftly on to continue taking evidence on the draft budget. I welcome our final panel of witnesses: Colin Howden is the director of Transform Scotland, Ian Aitken is the chief executive of Cycling Scotland, John Lauder is the national director for Scotland of Sustrans, and Keith Irving is the manager of Living Streets Scotland. I invite Jamie Hepburn to start.

Jamie Hepburn: Gentlemen, I think that you were here for the previous evidence, so you might

have heard Malcolm Chisholm ask this question of the last panel of witnesses. I seem to have purloined it from him, for which I apologise.

You will be aware that a number of the capital projects that are proposed for future years are to be paid for using the non-profit-distributing model or the regulatory asset base model through Network Rail. What are your thoughts on that approach?

Colin Howden (Transform Scotland): I do not think that we have a great deal to add on that topic. Our submission leads more on priorities for spending.

Jamie Hepburn: Okay. That is an easy way to start the evidence session.

The Convener: As no one else wants to comment, we will move on to Malcolm Chisholm.

Malcolm Chisholm: I will move on to a question that I am sure will be of more interest to you, which is about the relationship between the transport policies that have been outlined and the draft report on proposals and policies. I thank you for your submissions, in which you make detailed comments on that. To what extent is the RPP aligned with the draft budget? That question might give you more opportunity to express your concerns about the budget.

Colin Howden: I am happy to address that in more detail.

Our submission is based on the one that was submitted by Stop Climate Chaos Scotland, which is an alliance of about 50 or 60 organisations not just from the environmental sector, but from international development, the churches and many other sectors. In its submission, it came up with the figure that only 6 per cent of the RPP measures in the next financial year would be funded. It also said that, over the three-year period of the spending review, only 10 per cent of the RPP measures would be funded. Therefore, the view of SCCS and, indeed, of Transform Scotland is that the budget badly fails in funding the Government's action plan for meeting its climate change targets.

Keith Irving (Living Streets Scotland): Turning briefly to the low-carbon economic strategy, the Government has set out very good policies on how the Scottish economy can become a low-carbon economy. Those policies include objectives such as reducing the need to travel and useful regeneration. We would like to see more detail in the budget about how those welcome objectives will be met.

John Lauder (Sustrans): From our point of view, the main measure in the RPP that affects the work that we are involved in is the delivery of the cycling action plan for Scotland, which includes

the aim that by 2020 10 per cent of trips will be by bike. The view that we express in our submission is that, under the draft budget, the cycling action plan cannot be delivered, so that element of the RPP needs to be revised or removed, because without capital investment in infrastructure to develop cycling, the cycling action plan is finished.

Ian Aitken (Cycling Scotland): The cycling action plan has an ambitious vision of cycling achieving 10 per cent modal share by 2020. The Scottish Government has shown strong leadership by bringing together an action plan and all the partners that are necessary to deliver it. It contains 17 actions, which Cycling Scotland believes are all the actions that are necessary to achieve a significant shift in modal share.

However, my understanding of the draft budget is that the capital spend for cycling will be reduced to next to nothing. When it comes to delivering modal change for cycling, it is important that there is revenue funding to encourage cycle training, such as the bikeability Scotland scheme—most of us will remember such training as cycling proficiency training—so that as many children as possible learn how to cycle safely on the road network.

It is also essential that there is capital spend so that appropriate infrastructure, such as segregated lanes to and from schools and in our towns and city centres, are in place to encourage more people to cycle.

Malcolm Chisholm: This is quite difficult. Even though we have been given the level 4 figures, we still do not know what the support for sustainable and active travel budget line, which as you know has been significantly cut, will be spent on. It specifies £11 million for capital, but it does not say what that is for.

What sums of money would be required to have a discernible and significant effect on our carbon reduction plans? This question might be easier for you to answer, because although in most budget discussions people just want to spend more money on lots of things, presumably you want to spend more money on some things and less money on others. It would be useful to have a sense of how much money could make significant progress towards the cycling target. Equally, what budget lines are not helpful or could be reduced in order to help us meet our carbon reduction objectives?

Colin Howden: I will have the first go at that. We are fully behind the RPP, which was worked up by the University of Aberdeen and Atkins after quite a long process of study involving a wide range of stakeholders, including ourselves. The proposals are essentially on the things that the Government should be investing in to deliver not

only emissions reduction, but a more effective transport system with reduced congestion and so forth. Essentially, we are looking for the Government to fund the RPP, which would deliver on the active travel measures that we have been talking about and smarter choices measures, such as workplace travel plans, school travel plans, personalised travel plans, car clubs and lift sharing. Those are the really cheap measures that we should implement if we want to deliver traffic and emissions reduction. We are deeply disappointed that the Government has funded only 6 per cent of the RPP in this budget.

John Lauder: Our view at Sustrans is that over the past four years we have made considerable progress towards the CAPS target. You asked how much money we need. We think that we need to continue the budget that we had in 2010-11. If we keep the cycling, walking and safer streets budget ring-fenced—Sustrans has a capital budget and a resource revenue budget is going into Cycling Scotland—we will continue to see the growth that we have recorded over the past four years. We argue that a £25 million budget is very modest and needs to be maintained. The co-ordination under the umbrella of the cycling action plan for Scotland is exactly right and it is beginning to work. The model is right and the funding needs to be maintained at its previous pace. Of course we could do with more, but we are realistic. We think that a £25 million budget is realistic and it is making a difference.

On the £16 million budget for the sustainable and active travel team, our advice is that the £11 million capital will be going on the Halbeath park and ride and the Glasgow fastlink scheme. There will be no capital for cycling infrastructure within that budget.

Ian Aitken: It is the opinion of the CAPS delivery forum, which is made up of the 32 local authorities and other partners that have actions within CAPS, that if the capital funding in the cycling, walking and safer streets budget, which is under negotiation between the Scottish Government and COSLA, does not remain in place, it will not be possible to achieve the CAPS vision, because there will not be any capital spend available to develop cycling infrastructure in local authority areas. Although some local authorities invest from their own capital budget, the majority of funding comes from CWSS and Sustrans grant funding. It is important that, as well as considering the money from the sustainable transport team, CWSS funding is also retained.

12:30

Keith Irving: We also emphasise the importance of retaining CWSS from the point of view of enabling people, particularly in the context

of an ageing population, which will inevitably be less mobile. We need to provide the infrastructure for people to make walking journeys and CWSS provides an important mechanism to enable the implementation of the extremely low-cost schemes, such as pedestrian crossings, dropped kerbs and traffic calming measures, that enable people to get around their towns and cities on foot.

The advice that we have received from local authority partners is that, without CWSS, which helps to bring in additional funding from elsewhere, such as Europe, those kinds of small-scale investments that are based on what local communities are asking for will disappear or take a much longer time to implement. Our view is that the £7.5 million that is available this year should be made available as additional funding to local authorities so that it can be invested in what local people are asking for.

Neil Findlay: Transform Scotland's submission says that

"Transport is the basket case of climate policy"

and comments on the Scottish Government's dismal failure to act on the rhetoric on climate change. Given that, and given what we have been discussing with regard to the report on proposals and policies, what would you like to be removed from the Government's transport budget, and what would you like to be put in?

Colin Howden: We were clear on that in our submission. We think that the Government needs to think about delaying or cancelling some of the major road projects that have been given the go-ahead. Those are the schemes that are gobbling up all the finance and will lead to more emissions. They seem to be the worst things to do in terms of delivering the Government's objectives. If we are trying to get a more healthy population or bring down our carbon emissions, we should not build big roads. That is our key recommendation.

In our submission, we go on to say that the alternative thing that the Government could do is think about how it can raise funds from transport. The previous panel of witnesses talked about road-user charging, but there has been no progress on that by the Scottish Government or the UK Government. That is the sort of measure that we should be implementing, however.

Keith Irving: I will push that question towards road maintenance. We served as part of a working group on road maintenance that is reporting today—the minister addressed it this morning. The conclusions of the working group were clear. We said that when the Government is making budget decisions on road maintenance it is more important to spend on local roads—which make up 90 per cent of our road network—than on trunk roads. The funding gap is large and getting larger,

and we believe that that impacts badly on vulnerable road users, in terms of the ability of pedestrians to get around. We must create an environment that is safe for people to get around in, with regard to places to walk, street lighting and so on.

The trunk road maintenance budget has gone up in the draft budget and we know that local authorities are reporting that their local maintenance budgets will go down—quite significantly, in some cases. We have identified that as a reprioritisation issue. Obviously, resources are extremely tight but, in terms of the priorities that the Government has identified, local authority maintenance budgets are under pressure and need greater support than they are currently receiving.

The Convener: Do you want to follow anything up, Neil?

Neil Findlay: No, thank you. Given the time constraints I am happy with those responses.

Adam Ingram: I do not think that I need to ask you for your views on modal shift. I presume that you have been lobbying the Scottish Government about the continuation of the freight facilities grant or an alternative. What assurances are you looking for from the Scottish Government and what progress are you making?

Colin Howden: We have certainly called for the reinstatement of the freight facilities grant. We lobbied for it to be reinstated in last year's budget and were happy to see it reinstated then, albeit at a reduced level.

I point you to the evidence of the Rail Freight Group, which is one of our members and which is calling for a £5 million budget per year, which is somewhat below the £7 million that it had before. Whether that is delivered through a reinstated FFG or through an expanded future transport fund, we can see that either might work.

It is not just sustainable transport interests or rail freight interests that are calling for the reinstatement of the freight facilities grant. You heard the evidence of the business interests in the previous panel and we have met the Freight Transport Association and the Road Haulage Association, whose concerns are essentially identical to ours.

Keith Irving: It is important to remember that one of the other benefits of shifting freight from road to rail is that that lessens the impact that the large and growing number of heavy goods vehicles has on residential streets and small town high streets. Wherever it is possible to shift freight to rail, that benefits the high streets and creates a better environment for business in many small

towns, especially those that have busy trunk roads running through them.

Adam Ingram: I take it that your view on where the money for that should come from would be the same as that which you indicated in response to Malcolm Chisholm's question. One of the things that the committee must do is specify from where in the budget we would take the money—it is not just a question of our saying that the Government needs to spend more money in a certain area. Would your answer be the same as the one that you gave in response to the question about the road maintenance budget, in that you would seek to take funding from the trunk roads budget?

Keith Irving: There is a limit to how far that budget can be pushed because trunk roads also need to be maintained. I was simply making the comparison between trunk roads and local roads and what priority they have. We have to look at the overall transport budget and the budget lines that are going up, such as trunk road investment. The lines that are getting additional funding are where we have to look to see whether funding might be available for things like the FFG. As I said, from our point of view, our top priority is CWSS.

Colin Howden: The areas that we are highlighting here—expenditure on active travel and rail freight investment—are small budget items compared to some of the items that were being talked about by the previous panel, which was calling for new roads, new rail lines, subsidies for aviation and so on. Those are large amounts of money but the budget lines that we are talking about are £5 million for the FFG and somewhat more for active travel. Those are the things that we picked out in our evidence.

Ian Aitken: The active travel line for this financial year is about 1 per cent of the transportation budget, as estimated by Spokes, and that will drop down to about 0.8 per cent in the draft budget. It is not a large sum of money.

However, the impact of and health gains from spending on active travel can be significant and link in to numerous Government policies. For example, in Edinburgh, 5 per cent of people now cycle to work because the local authority has had sustained investment in cycling and provides a good cycle network. We would like to see that replicated throughout the country; the investment is minimal compared with other transport infrastructure investment.

John Lauder: The approach in our written evidence is to highlight that the national cycle network is truly a national network. Like Keith Irving, we believe that funding could be found from the maintenance budget. The budget that we had in 2010-11 was £7.5 million. We can show in our

evidence that there is a really good return for that investment.

I want to highlight a couple of things about the national cycle network. It is truly national, so it touches every part of Scotland—we have attached a map in our written evidence to show where the network touches—and as a result it has an economic benefit for lots of small firms in out-of-the-way places in Scotland that do not necessarily get a lot of capital spend from transport. Because of that, we are helping some small to medium-sized civil engineering contractors, which are usually family firms, to keep running. I highlight in that regard the project that we have been delivering in Argyll, which is a trunk road alternative that is funded by the trunk road division to take people off the A828, which is a busy two-lane trunk road, and give an option to walk and cycle for short journeys between villages in Argyll and an option for touring and recreational cyclists.

In addition to that, we estimate that the fiscal benefit from the national cycle network is about £100 million a year. Mountain biking is estimated to bring in £65 million a year to Scotland. In that regard, we believe that the national cycle network is delivering very well. If it was treated as a national piece of infrastructure and £7.5 million could be found for it from the maintenance budget or another budget in Transport Scotland, that would truly treat the network as a national network.

The Convener: Jamie Hepburn.

Jamie Hepburn: I think that the witnesses have probably covered the areas that I wanted to explore, convener, so in the interests of time, we can move on.

The Convener: Okay. Adam, do you want to ask about rail?

Adam Ingram: Yes. A number of witnesses, including academics, have indicated to us that the rail industry is overfunded. Are there any opportunities for us to get better value for money from the Government's investment in the rail industry—for example, during the refranchising process?

Colin Howden: Yes, there probably are opportunities that should be explored. We will respond to the franchise consultation in full when it comes out. I gather that it has been promised for before the end of the year.

Within our membership, there is a wide diversity of views. For example, some of our members would like to bring back British Rail and would support such a campaign. However, we have Stagecoach, First Group and Virgin Trains as members and I suspect that they would want to

keep their franchises, so I had better be careful what I say here. *[Laughter.]*

There is broad acceptance among our board members, however, that the current structure has caused unnecessary costs. The multiplicity of contractual arrangements between the companies involved in the rail industry and that way of setting things up can reduce flexibility in terms of moving around assets such as trains and rolling stock. There are good arguments for exploring greater integration of infrastructure, operations and rolling stock. How do we do that? Well, I am not an expert in rail industry structure, but there are plenty of them out there.

Other people have concerns about whether we will see yet another shifting of the chairs in the rail industry and whether that would disturb the genuine progress that we are making in rail in Scotland. I think that it would be broadly observed that, because we have one operator in Scotland that provides 90 to 95 per cent of all services, that in itself has given us benefits that are not enjoyed by areas in England where there are many more overlapping rail companies. I think that I am saying "maybe" in answer to Mr Ingram's question.

Keith Irving: I will make one brief point about bringing in income to whatever rail industry system there is. A couple of months ago I met someone whose job with the Dutch railway was to maximise the income that that railway operator received within the station by maximising the retail offering. That is relatively small beer, but it is important and a challenge for our rail industry. Local stations are economic hubs. They get a great deal of pedestrian footfall and are therefore ideal for opening small shops and so on. They can make a contribution. For example, proposals have been made for Haymarket station, which is one of the busiest stations in Edinburgh, and there are greater opportunities to sweat the asset, to use the cliché, and to bring in income by making the link with local retailers and maximising the location.

Gordon MacDonald: I want your view on the national concessionary fares scheme. Do you think it is sustainable in the current economic climate? Do we have the balance right in the bus service budget, with the concessionary scheme increasing and the bus service operators grant falling?

Colin Howden: I will talk about BSOG first. We have drawn attention to the cut in the BSOG budget, which we gather is about 20 per cent. We oppose that—we would like those funds not to go down and that would be our priority in funding the bus industry. We note the evidence provided by our English equivalents, the Campaign for Better Transport, which reported that in response to cuts to BSOG in England, 77 per cent of all English local authorities have either cut bus services or

are considering bus service cuts. That is what we are most concerned about in this budget: we are opposed to the BSOG cut. There might be ways to improve how BSOG is applied, but that is a different debate for a different day.

The national concessionary fares scheme would not be our first priority for cuts in transport expenditure. In answer to the earlier questions, I suggested what our response would be to reduced expenditure on transport and further funds being raised from the transport sector. If we need to cut expenditure on concessionary fares, perhaps we should consider what was suggested by Professor Rye at your evidence session four weeks ago. He suggested retaining the universality of the benefit while having a nominal fare payment. That is the idea that we would rest on.

Keith Irving: We have no specific views on the concessionary scheme as such, but I want to re-emphasise to the committee the importance of buses to people without access to a car. Given the context of the 84 per cent increase in the number of pensioners over the next 20 years, the support for buses will remain important in enabling people to get out and about. The debate needs to be framed in that broader context.

John Lauder: I agree.

Colin Howden: If I may chip in one further point on buses, the Scottish greener bus fund also appears to be missing from the budget. We have been very supportive of it in the past, first on climate change grounds as it leads to lower-emission hybrid buses coming into the bus fleet and, secondly, for economic reasons. Although we have not made any cars in Scotland for 30 years, we have one of the major international bus manufacturing companies in Scotland, Alexander Dennis Ltd, and we think that there are economic opportunities to expand the production of our low-emission buses in Scotland. It is disappointing and, frankly, rather surprising to see the excision of the Scottish greener bus fund from the budget and we would like to see it come back in.

The Convener: We will certainly ask the minister about that when he comes before us.

I thank the panel for the evidence that they have given us today. I remind you that, as previously agreed by the committee, we will move into private session for the rest of our meeting.

12:49

Meeting continued in private until 13:13.

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