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Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 18 January 2012

Session 4

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
1st Meeting 2012, Session 4

CONVENER

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

DEPUTY CONVENER

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

COMMITTEE MEMBERS

*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)
*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)
*Alex Johnstone (North East Scotland) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Margaret McCulloch (Central Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

David Anderson (Scottish Government)
Alex Neil (Cabinet Secretary for Infrastructure and Capital Investment)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 4

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 18 January 2012

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

Interests

The Convener (Maureen Watt): Good morning. I welcome everyone to the first meeting in 2012 of the Infrastructure and Capital Investment Committee and remind members to turn off their mobile phones and BlackBerrys, as they affect the broadcasting system. We have received no apologies—we are all present and correct.

Item 1 is a declaration of interests. I welcome a new member to the committee, Margaret McCulloch, and ask her whether she has any relevant interests to declare.

Margaret McCulloch (Central Scotland) (Lab): I own two properties and, previously, I worked with Government-funded training programmes.

The Convener: Thank you. At this stage, we should record our thanks to Neil Findlay for his contribution to the committee's work during 2011.

"Infrastructure Investment Plan 2011"

10:01

The Convener: Under agenda item 2, we will hear evidence from the Scottish Government on its "Infrastructure Investment Plan 2011". I welcome Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, and his supporting officials, who are: Janet Egdell, head of infrastructure investment policy; David Anderson, head of planning and design, Transport Scotland; and Bruce Teubes, an economist in the Scottish Government's communities analytical services division—that is a long title.

Would you like to make an opening statement, minister?

The Cabinet Secretary for Infrastructure and Capital Investment (Alex Neil): I thought that it might be better to go straight to questions because, essentially, the infrastructure investment plan is my opening statement. That will give members more time to question me. I realise that I am breaking the habit of a lifetime.

The Convener: That is fine—if nothing else, it will save time.

We have received an interesting briefing from the Scottish Parliament information centre, in which the figure for the reduction in the capital spending budget has been revised. The Government now cites a 32 per cent reduction. According to the SPICe briefing, taking into account gross domestic product deflators and Barnett consequentials, the calculated reduction is 13.7 per cent. I am not sure that we have ever used revised deflators to recalculate a reduction in spending, but will you outline what you think the reduction is and how much money we have to spend in the budget compared with the previous estimate?

Alex Neil: I certainly do not recognise the figure of 13 per cent. I do not know how SPICe managed to come up with that figure, but we would be happy to discuss with SPICe the methodology that it used to arrive at it.

The Government revised its figure down from 38 per cent to 32 per cent because of the autumn statement, which was clearly designed to increase the level of capital spending. That was because the Government in London recognised, at least in part, that it had made a terrible mistake in cutting capital spending so severely, as Alistair Darling had originally planned to do. As a result of the autumn statement, the percentage cut in the capital departmental expenditure limit budget for the comprehensive spending review period has gone down from about 38 per cent to 32 per cent. That is the Scottish Government's official estimate.

The Convener: Am I right in thinking that the additional spend that is available as a result of the autumn statement is £433 million? Has the Government decided how that might be spent? You might know that the committee sent a letter to the Cabinet Secretary for Finance, Employment and Sustainable Growth to urge more spending on housing. Do we know yet how much of the additional money might be spent on housing?

Alex Neil: I am always delighted when the committee supports additional spending in my portfolio area, and I would be delighted if the cabinet secretary and the Cabinet agreed to that.

Seriously, though, Mr Swinney will make a statement probably early next month on the outcome of the Cabinet discussions and decisions on the consequentials. The consequentials for the current calendar year are of the order of £34 million, but the longer-term ones over the three-year period require some thought and discussion. A decision will be reached in the next few weeks, and Mr Swinney will then announce the Cabinet's decisions on the consequentials for the next three-year period.

The Convener: How is the additional spend of £34 million for this year going to be spent?

Alex Neil: Mr Swinney will make an announcement on the decisions on that as well.

The Convener: Okay. On the transfer of resource to capital, do you have any more information on specific projects that might be financed by that and on specific budget lines?

Alex Neil: In response to the committee's request, I gave an undertaking the last time I was before the committee to provide details of where we are transferring from the resource budget to the capital budget. I should maybe explain the process. This is not being done halfway through a comprehensive spending review period. The decision was taken as part of the comprehensive spending review, so we do not start with a list of committed projects and then, if you like, rob Peter to pay Paul; we start with a clean sheet of paper.

We decided to take the money from the global resource budget, which is about £700 million over the three-year period, and transfer it to the capital budget. Therefore, it does not come from specific projects per se but from the global resource budget over the three-year period. Of course, it will be allocated to individual projects and individual cabinet secretaries will announce in due course where the money will be spent. For example, in relation to my portfolio and the allocation of funding to the future transport fund, Keith Brown announced yesterday additional funding for green buses, cycling and other issues that Mr Chisholm chiselled me about the last time I was here. You will see from yesterday's announcement that we have responded accordingly. Obviously, the biggest single transfer from the resource budget to capital is for health. The Cabinet Secretary for Health, Wellbeing and Cities Strategy will make announcements as and when as to where that money is being spent.

The Convener: Malcolm, do you want to come in?

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): Yes. Minister, we take your point about waiting to hear what John Swinney will say. I suppose the general impression is that a bit more capital will be allocated; the only proviso relates to money for the sleeper. Will that all have to be spent from next year's capital budget? If so, that would clearly reduce significantly the amount of money available for other capital investment.

Alex Neil: No, that is not the case. We will receive about £50 million from the Treasury in respect of the sleeper, which we are matching, but it will be over a period of years. We will profile that. As you can imagine, we are in deep discussions with the coalition Government about how we go about investing in the sleeper service, which we are keen to do. We are content to have been able to reach an agreement to get that additional money for the sleeper service, which, between the two Governments, will amount to £100 million over a period of time. We received the money from the Treasury this year, but as you will know from your own experience in government, money is not always spent in the same year as it is received.

Margaret McCulloch: Good morning, cabinet secretary.

Alex Neil: Good morning.

Margaret McCulloch: You have said that your non-profit distributing model and your regulatory asset base will use private sector investment. What contingencies do you have in place if you fail to get finance from private bodies?

Alex Neil: First, I do not anticipate that problem arising. I say that with a degree of authority in the sense that over the past three or four months we have started the procedure for raising the money—for example, for Inverness College and City of Glasgow College. The indications from the market are that we are not going to have any real difficulty in raising the private sector funding. We issued the prior information notice last month for the M8 bundle, which is a substantial contract. The early indications from that about the availability of private finance are also encouraging. So, the first thing to say is that we do not anticipate any problem in raising the money.

However, a change is taking place within the financial services sector that is not just about money raised in the market through the NPD and RAB by the Scottish Government. The coalition Government is finding a trend in that regard as well. Traditionally, the vast bulk of the money that was raised came from the banking sector. However, because of the squeeze on that sector, the new Basel rules, the capital ratio and liquidity requirements and the length of time over which banks are now prepared to lend, the banking sector is not as attractive a proposition for raising money as it was in the past. That is why the Scottish and UK Governments—we are talking to each other about this; we do not row about everything—are planning in future to tap into, for example, institutional funds and particularly pension fund money. It will still be loan funding, but the source is more likely to be institutions such as pension funds and, possibly, life assurance companies than always the banks. That is not to say that the banks will not be lending and that we will not use the banks to help fund our NPD programme—of course we will. However, there will be a greater spread of sources of funding in future. To be honest, I am 110 per cent confident that raising the money will not be a problem.

Alex Johnstone (North East Scotland) (Con): During the debate before Christmas, I and one or two others raised concerns about the 5 per cent limit that you outlined. I understand that it is there to make the whole thing sustainable. However, you can correct me if I am wrong, but my understanding is that the 5 per cent limit will be for all future annual expenditure in the departmental expenditure limit budget.

Alex Neil: The entire DEL budget.

Alex Johnstone: The 5 per cent will include in addition to NPD and RAB payments previous private finance initiative commitments that are on-going and future debt repayments, presuming that borrowing powers are available. In addition, 4 per cent of the 5 per cent is specifically for NPD and PFI payments. What was the basis for deciding on the 5 per cent and 4 per cent figures?

Alex Neil: First, I will explain where we are today. As things stand, apart from the mainstream capital grant that we get from the Treasury, there are four possible ways in which to fund capital programmes by going to the market and getting it to lend or to help fund projects. The first way is one that, I think, is now very discredited—even the coalition Government has abandoned it—which is the PFI programme. Obviously, we inherited a large annual charge for PFI contracts that were signed by the previous Administration, for which we must fork out in the order of £700 million a year in annual unitary charges. At the moment, that is equivalent to between 2 and 3 per cent of the annual DEL. On top of that, we have about another 1 per cent through RAB repayments: the regulatory asset base that is the method used to fund investment in projects through Network Rail. In total, we are at between 3 and 4 per cent at the moment, so we are well under the 5 per cent. Because NPD is relatively new, the annual charges on it will start to kick in over the next two or three years, because that is when the projects will be up and running.

We estimate that, for current commitments, the level will peak at around 4.5 per cent in 2017-18. In other words, 4.5 per cent will be used to meet our contractual repayment commitments for PFI, NPD and RAB combined. I hope that by then we will have borrowing powers that will allow us to go to the Public Works Loans Board to borrow money. Its interest rates are about 50 per cent cheaper than—

Alex Johnstone: But it is not free.

10:15

Alex Neil: It is not free. In fact, one of the first things that your Chancellor of the Exchequer did was to increase its cost by 1 per cent, so it is certainly not free and is dearer than previously. Nevertheless, it is still a lot cheaper than borrowing through other methods. Obviously, the repayments under that would be included in the total as well.

On the best financial advice, we have decided that if we have a 5 per cent cap for the four methods of repayment combined—5 per cent of the total budget—that will allow us to meet our ambitious investment target and do so prudently, in a way that does not threaten any of our other budgetary requirements. We should bear in mind the fact that because of the services that are devolved as opposed to those that are not devolved a much higher percentage of our budget is effectively bespoke than is the case for the UK Government, because teachers' salaries, national health service salaries and so on are a high percentage of the budget. For example, NHS salaries account for nearly 70 per cent of the total cost of running the NHS in Scotland.

We decided that it would be prudent to have the 5 per cent limit, which would ensure that when we become independent we retain our triple A rating.

Alex Johnstone: Why did you decide to apply your limit to the total DEL budget rather than simply to the revenue-funded element?

Alex Neil: If you think of your own budget and how much you borrow, you know that you look at your total budget; you do not say "Well, I'm repaying HP on a three-piece suite, but I'll not take that into the calculation when I'm working out how much I can afford for a new mortgage," or vice versa. You look at your total income and financial situation. Our doing that meets the international standards for public finance.

Alex Johnstone: There is of course a lot of uncertainty about what will happen with budgets, particularly beyond 2015. What evidence do you have to support your claim that you can stay within budget, given your long list of ambitious projects?

Alex Neil: We take decisions on a CSR-to-CSR basis. For example, we know our budget for the next three years—both the capital and resource budgets—so we can give the go-ahead to individual projects because we know that we will have the money to pay for them. We cannot actually give the go-ahead to longer-term projects beyond the existing CSR until we know how much money we will have in the CSR beginning in 2015. Therefore, our plans are based on the assumption that we will have in the order of £3 billion to £4 billion a year to spend on average over the period to 2030. Clearly, though, if that figure goes up, we will be able to do more of the projects more quickly; if the figure goes down, we would need to do fewer projects and do them more slowly. However, we do not commit ourselves contractually until we know that we have the money.

Alex Johnstone: So just to sum up, you have set a rigid limit and progress against your list of projects will be faster or slower according to affordability within the limit. Is that what you are saying?

Alex Neil: We know what we can do over the next three years because we know when we will get the money and how much we will get. We can therefore plan precisely almost to the month when we will be able to give the go-ahead and put out contracts to tender. The further out we go, the less precise we can be about the timing. However, using the assumptions in our plan, we believe that the plan is not just affordable but very doable. Obviously, if the financial situation changes for the better or the worse, the timing and scale of the projects will be affected.

Alex Johnstone: That sums up the answer to my question. Thank you.

Malcolm Chisholm: I, too, raised this issue in the debate to which Mr Johnstone referred, Mr Neil, and you said that you thought that the Centre for Public Policy for Regions was wrong to flag it up as a major concern. However, in your comments today you referred to 2018, but most of the projects that are being paid for under public-private partnerships and so on will still be getting paid for in the 2020s and some of the projects in the infrastructure investment plan will not kick in until 2020 or thereafter. Are you confident about your planning for the 2020s, especially given that you want much greater borrowing capacity than has been proposed in the Scotland Bill?

Alex Neil: We have taken a prudent approach. We know what our commitments are—what we are signed up for—right through to 2030. We have looked at the 5 per cent limit and we have made assumptions about the amount of money that we will have to spend. If we deduct the amount for existing commitments from the 5 per cent limit, we know the headroom that we have in each year to 2030. The timing of and deadlines for projects such as the A9 are based on the calculation of the headroom that we have.

I do not want in any way to denigrate the CPPR's good work, but we think that it assumed that the Scottish Government is responsible for £1 billion of annual repayments from PFI and the like, when in fact the figure is about £700 million and the balance is made up of local authority commitments, which are not our responsibility. That is one of the areas that we are trying to clarify with the CPPR.

Gordon MacDonald (Edinburgh Pentlands) (SNP): The proposal in the Scotland Bill that is going through Westminster is that the Scottish Government should have the power to borrow up to 10 per cent of its DEL capital budget, up to a limit of £2.2 billion. Is such a level of borrowing adequate to drive economic growth? Has it been factored into your assumptions about the resources that are available to build the projects that are in the pipeline? If the power becomes available to the Scottish Government, how will you determine which projects should be completed more quickly?

Alex Neil: In our plan, the deadlines for the A9 and A96 projects, for example, are based on the assumption that we do not have borrowing powers. The Scotland Bill is going through the House of Lords and there is no guarantee—even now—that it will be passed with provisions on borrowing powers. That is my first point.

If we get borrowing powers, our ability to fund projects will be enhanced and we will have to decide whether to increase the number or scale of projects or bring forward projects that are scheduled for a later date, if that is possible. There will be a host of options, which we will consider when we know that we definitely have borrowing powers, what strings are attached to them and how much we are allowed to borrow globally or in any one year. That will be the time to take decisions about how we use the additional borrowing powers.

As I said, the cost of borrowing from the Public Works Loans Board is about 50 per cent less than the cost for any funding source for capital spending other than the capital grant from the Treasury. Therefore, if we can fund an increasing share of our investment through that method, over time—20 years, for example—we will save a significant amount of money. Even within the 5 per cent limit, if we were funding all our investment through the board we could afford to do twice as much as we could do through other methods, because the interest rate is about half the rate of other methods. We are keen for borrowing powers, not just because that will increase our ability to invest but because over time we will save a significant amount of money in interest payments, which could be better used for investment.

Gordon MacDonald: Would you like the borrowing level that is proposed in the Scotland Bill to be increased, so that you can get more cheap borrowing at a lower interest rate?

Alex Neil: We absolutely would. As you know, the Scottish Government has made it plain that we see the need for greater borrowing powers. To be frank, a section 30 order could be made tomorrow morning to give us borrowing powers. Why we need to wait for the Scotland Bill to be passed, I do not know, because the power is there to make an order in council and give us borrowing powers. Given where we are in the economic cycle, that would be the sensible thing to do.

The Convener: Local authorities currently have more borrowing powers than the Scottish Government. What discussions have you had with local authorities and what kind of headroom is there for them to borrow? Are most authorities already up at their limit, or have some got a fair amount to go? For example, could a lot more be done on local authority housing?

Alex Neil: The picture is mixed. For example, East Lothian Council has been run very prudently and is in a relatively healthy financial position, whereas other authorities are not in that position and have reached their borrowing limits. Overall, the last figure that I saw put the unused prudential borrowing capacity of the local authority sector in Scotland at in the order of £1.5 billion to £2 billion.

We announced the £460 million investment programme for housing two months ago. As we are now back to building council houses on a reasonable scale, the councils that are building houses are providing their share of the money through their borrowing requirement. Last time, councils received a £30,000 capital subsidy from the Scottish Government, but we are still always conscious of the need to ensure that they are within the prudential borrowing limits. Indeed, we agree to allow councils to borrow only if they are within those limits—the last thing that we want to do is to put a local authority, accidentally or otherwise, into a position in which it cannot meet its repayments. To the best of my knowledge, no local authority is in that position. We monitor the situation closely, as does the Treasury.

Malcolm Chisholm: Page 13 of the infrastructure investment plan contains a graph detailing how proposed infrastructure investments deliver against certain prioritisation criteria. The Government states that that is an

"initial high level assessment of the outcome"

and that it

"decided that providing the assessment for each of the individual projects and programmes ... could be misleading".

I home in on two of the criteria: delivering sustainable economic growth and managing the transition to a low-carbon economy. Starting with the former, will you explain why publishing information on how individual projects will contribute to economic growth could be misleading?

Alex Neil: Our assessment of the impact on economic growth is a high-level one. There is a robust formula that states that for every £100 million that is invested in capital spending, an additional £60 million is generated in the economy from the multiplier and about 14,000 jobs are safeguarded or created. However, we cannot take that generally accepted formula and apply it to an individual project. For example, we might try to extrapolate for a housing project in your constituency and say that we are building 100 houses, so the proportional impact will be the same, but that would not necessarily be the case. That is why we say that by going down to too low a level, things do not have a valid meaning and it would be difficult to justify the claims.

That said, there is a robust set of criteria in housing, transport and water to decide how to prioritise projects. In transport, a range of measures are considered—David Anderson can give you more detail on that if you like. Those measures include the impacts on carbon emissions, travel times and the economy through growth and employment, and a range of other measures, too.

Malcolm, you are familiar with the Scottish transport appraisal guidance—the STAG process—which is used to assess individual projects and whether they should go ahead. If it will help, I am happy to circulate to the committee information on the STAG process to show how we assess individual proposals, whether to go ahead with them and how to prioritise them.

10:30

Malcolm Chisholm: I think that Margaret McCulloch wants to ask about the short-term economic boost from the plan, so I will move on to another issue in which I have a great interest—managing the transition to the low-carbon economy. According to the Government, 77 per cent of these projects deliver against that criterion. The intriguing question is how it has arrived at that figure, but the more general question might be whether it has made an assessment of the overall carbon impact of the plan.

Alex Neil: No, we have not, because it is very difficult—almost impossible—to undertake that exercise with a plan of this type. However, let me give an example of what we are doing as regards the housing sector. In order to meet the target for 2020 of a 42 per cent reduction in carbon emissions from the 1990 figure, housing needs to make a significant contribution, because all the housing in Scotland contributes about 30 per cent of our carbon emissions and uses up roughly 29 per cent of all our energy consumption. We therefore cannot achieve our carbon emission reduction targets by 2020 without a significant reduction in carbon emissions from the housing sector. Because of the passive housing, low-energy-cost housing and highly insulated building standards that we now have, new houses are making a significant contribution by having, relatively speaking, very low emissions.

The challenge lies in the existing housing stock, because that is where the carbon emission problem exists. We can quantify that. In our proposals in the implementation plan and the climate change plan, we give a lot of figures on what we need to do about carbon emissions in housing and how it can be done. It is easy to do that at a sectoral level, but much more difficult to do it in a statistically robust way at individual house or individual housing project level. We accept, not just on housing but on transport, water, and right across the board, that a key part of the strategic objective is to drive down carbon emissions.

Malcolm Chisholm: I accept what you are saying about housing, but the vast majority of programmes and projects in the plan are not about housing, so I am still intrigued by the 77 per cent figure. Part of my concern results from a conversation that we had two or three months ago when you tried to persuade me that the M74 extension would be beneficial from the point of view of climate change. It would be interesting to know whether such road building projects are included within the 77 per cent.

Page 44 of the infrastructure investment plan states that the growth in the Scottish economy

"is likely to result in a 15-20% growth in vehicle kilometres by 2020."

Is the Government still committed to stabilising traffic levels at 2001 levels by 2021, as spelled out in the Scottish national transport strategy, because that quote suggests that it is not?

Alex Neil: In the next few months, we will publish an update—a refresh—of the transport strategy in which we will spell out exactly our assessment on that.

On the road building programme, we and the coalition Government share the objective that, by 2050, the vast bulk of cars in which we will all be travelling throughout the United Kingdom—or by that time, I hope, Scotland and the rest of the United Kingdom—are driven by electricity, not the internal combustion engine. The road does not create the pollution or the carbon emissions; the internal combustion engine that drives the car is the source of the emissions. If we achieve that strategic objective by 2050—I hope that you and I are around to see whether that is so—and we are all driving around in electric cars, there will be no carbon emissions, but even if we have 5 million electric cars in Scotland, they will still need roads to travel on.

Malcolm Chisholm: It would be a bit of a miracle if I were here in 2050. Will the Government publish more detail on the assumptions behind the 77 per cent figure?

Alex Neil: Bruce Teubes would be happy to send you details on how we reached it.

Malcolm Chisholm: I have another question, which might be related to that issue. Will the Government outline some of the projects that it chose not to go ahead with and say why the projects in the plan were chosen over them? It might be interesting if you could give an example of one that you rejected and say why you did so.

Alex Neil: The projects in the investment plan are large ones and there is a limit to the number of large projects that can be undertaken, for various reasons. There is no project that people have demanded be undertaken before 2030 that is not in the plan.

The question is more relevant with regard to the smaller projects. For example, with the exception of the Kincardine bridge improvements, we have around £140 million-worth of shovel-ready transport projects that are ready to go to tender, if we had the money. If we end up with less than £140 million from the consequentials for transport projects, I will have to decide which of those to include in our plans for construction in the next three years and which ones to exclude. My decision will be based on a range of criteria. Those criteria are readily available, and I am happy to publish them. That is the level at which we tend to say no to certain projects.

For example, there is no option with regard to the upgrading of the A9. It could be argued—perhaps by people from Fort William—that, instead of dualling the A9 between Perth and Inverness, we should instead be upgrading the A82. We are taking steps to upgrade the A82 and we want to do more in that regard but, frankly, in terms of the connectivity between the central belt and the Highlands, there is no alternative to upgrading the A9. The same could be argued for the vast bulk of those very large projects.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): There seems to be some confusion about figures that appear in the document. For example, the IIP document talks about 75 projects or programmes, but the statement from you that was released at the time of the publication of the document indicated that there were 54 major infrastructure projects and 33 programmes. Further, annex B includes 17 projects and annex C includes 68, which adds up to 85 projects. Also, there is some confusion around the capital value figures. You have been widely quoted as saying that the value of the plan is something like £60 billion. However, the sums in annex C come to around £31 billion. Could you shed some light on those differing figures?

Alex Neil: With regard to the capital value figures, the £60 billion is the total amount of capital investment that the Government anticipates making over the 15-year period beyond this CSR period, up to 2030. That is based on an average of £4 billion a year, which is the best current estimate of what will be available. The £31 billion is the cost of the projects that are mentioned specifically in the plan. The £29 billion gap is made up by a number of things. For example, the roughly £140 million-worth of shovel-ready projects in transport that I have just mentioned are included in the £60 billion figure but not in the £31 billion figure because, as we said at the beginning of this process, projects under £20 million are not specified in the investment plan.

Secondly, the maintenance figures are included in the £60 billion figure but not in the £31 billion figure. There are one or two other things like that as well. That is the reason for the difference between the two figures.

If you give us a list of the other figures that you are concerned about, we will give you a detailed explanation of each one. They are not contradictory, once you look at the definition of them. I am happy to provide the committee with a detailed explanation of all those figures and how they are reconciled.

Adam Ingram: That is fine. Perhaps a little later we can talk about your £140 million list of projects.

Alex Neil: Which, I should say, does not include the Maybole bypass.

Adam Ingram: But it might include the Bogend toll.

Alex Neil: I am glad to see that you are taking a global view of this, Adam. [*Laughter*.]

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I always enjoy Adam Ingram's line of questioning—I learn a lot about proposals for investment in Ayrshire.

I suppose that the interesting part of the plan is the specific projects that it contains. Can you tell us about the value of some of the key projects not only in the list of the top 10 according to estimated value that the financial scrutiny unit has included in its work for the committee but in the plan?

Alex Neil: The new Forth crossing is not only the biggest project in the plan and being managed by the Scottish Government but—I am told—the largest civil engineering project of its kind in Europe. It amounts to £1.6 billion and most sensible people agree that it is essential to Scotland's lifeblood to ensure that it is completed on budget and on time by 2016.

There are other large projects, including the Glasgow Southern general hospital, which is worth £800 million. From a health service point of view, that project is essential not just for Glasgow; as you know, the Southern general is an internationally renowned centre of expertise in head injuries and neurosurgery.

I could go through the top 10 and justify each of them, but that might take quite a long time. Are there any specific projects that you want me to comment on?

Jamie Hepburn: You mentioned two projects that are well known and have been examined previously, but perhaps you can tell us about, for example, the Glasgow terminal stations and west of Scotland strategic rail enhancements project, which, at £3 billion, is the second highest in the list in terms of value.

Alex Neil: David Anderson can provide some detail on that.

David Anderson (Scottish Government): That particular programme is based on the prediction that, as rail services change and develop over the coming years, capacity, particularly at Glasgow central high level, will run out. The question is what we do next. Indeed, if we also factor in the introduction of high-speed rail, it becomes clear that we cannot simply fiddle around with small things and that we have to do something significant—potentially, for example, constructing another station in Glasgow. In short, that is the level of investment that will be required to increase rail capacity and rail travel in the west of Scotland instead of simply dealing with smaller issues.

Jamie Hepburn: What is the likely site for another rail station in Glasgow city centre?

Alex Neil: We have not got there yet. I can rule out Cumbernauld, though.

Jamie Hepburn: Much as I would like to stretch the definition of Glasgow city centre to include Cumbernauld, I will resist the temptation.

We have already touched on the funding mechanism and the certainty of projects. Some of these projects—for example, the ones that you mentioned—are already under way, so they are pretty certain. I suppose that the rest could be viewed as a pipeline, but how confident are we that they will happen?

Alex Neil: Based on our assumptions about the availability of borrowing and the estimated 5 per cent headroom, we believe that these projects are perfectly possible and likely to happen in the timeframes that we have set out. In time, of course, we will announce more detail. For example, over the next few months, I will be announcing a detailed schedule for upgrading the A9 between Perth and Inverness going through to 2025. Indeed, I believe that the proposals for the Birnam and Dunkeld slice of the project are being exhibited locally as we speak.

We will also produce later this year a detailed schedule of the order for the different parts of the A9 and A96 upgrades and when we expect to be able to start and complete them. That will allow people to see the detailed plan based on the objective of dualling the A9 between Perth and Inverness by 2025 and the A96 between Aberdeen and Inverness by 2030 at the latest.

10:45

Similarly, we will publish in due course more details about the order in which the rail projects will be done. The two big priorities over the next three or four years are the Borders railway and the Edinburgh to Glasgow rail improvement programme, but the Borders railway will certainly be completed well before the end of the spending review period, and the Edinburgh to Glasgow rail improvement programme will be completed shortly after that. Within the next 12 months or so, we will announce which big projects will come after that. As we proceed, we will announce many more details so that people can see that plans are not pie in the sky but are hard, well-thought-out plans of action that we intend to implement.

Jamie Hepburn: When the plan was published, I heard it being described as a wish list—I will not name names to save their embarrassment. From what you are saying, it sounds like anything but.

Alex Neil: Absolutely. As I said, if we get a yes vote in autumn 2014, we will be able to bring forward many of those projects.

The Convener: One of the projects—it is equal 10th by capital value—is the Aberdeen to central belt rail improvement project. What are you thinking about in that £600 million category?

Alex Neil: I have spoken a lot about the road connection between the central belt and the north of Scotland—to both the Highlands and the north-east. I am sure that you would agree that there is a need to upgrade the rail infrastructure and service between Edinburgh and Aberdeen, Aberdeen and Inverness, and Inverness and Edinburgh and Glasgow. That is what we mean. We want to improve journey times, the quality of the journeys, the—

The Convener: The quality of the rolling stock?

Alex Neil: Absolutely, although we are not directly responsible for the rolling stock. We are talking about the infrastructure. It is about improving the service and connectivity. We know that a key element of a successful economic growth strategy is physical and telecommunication connectivity, and substantially improved connectivity within Scotland is at the core of the plan.

The Convener: I am sure that we will revisit rail transport and high-speed rail. On the latter, is all of the £9 billion for high-speed rail to link in with connections down south? Before we get high-speed rail—I think that that will be in 2025—are there projects on the lines that would help to speed up journeys in the meantime?

Alex Neil: Obviously, the improved connection between Glasgow and Edinburgh will help, for example, and the project that David Anderson mentioned will be of enormous assistance. However, the money for high-speed rail is specifically for the dedicated high-speed rail link that would be required.

We need to have a debate over the next few months and years about whether to bring high-speed rail to Glasgow or Edinburgh or whether it would be more sensible to bring it somewhere in between, for example. We have detailed discussions about such things. However, the first thing that we must do is get the UK Government to realise that, beyond Leeds, Scotland exists. The disgraceful decision not to give a timescale for bringing high-speed rail to Scotland is inexcusable.

Margaret McCulloch: I have a few questions on the infrastructure projects that are being worked on. In how many of the projects do you have to go abroad for equipment, resources and materials? If you spend a massive amount of money on projects, but half of that money, or even three quarters of it, goes towards bringing in materials from abroad, there is less benefit to the community and to the country as a whole.

Shall I carry on with my other questions?

Alex Neil: Sure.

Margaret McCulloch: This question is on the tendering process. Many of the small and medium-sized employers in the construction industry that could work on infrastructure projects may be small, one-man or two-man businesses. They may not have the expertise or the manpower to go through the tendering process via the procurement Scotland portal. Is the Scottish Government doing anything to support and encourage those small businesses, or to make them aware of opportunities to secure contracts as part of a consortium? Plumbers, electricians and joiners could come together to submit tenders.

When a large company tenders successfully, and then subcontracts to smaller companies, is there any input or control from the Government to ensure that purchases made by a consortium are made within the United Kingdom?

Alex Neil: I have a lot of sympathy, as I think we all do, with the sentiment behind Margaret McCulloch's question—and one of my Government responsibilities is for procurement. In Scotland, 50 per cent of public sector procurement is done by local government, and the other 50 per cent is done by central Government and central Government agencies, including the health service. The latest figures show that 75 per cent of all contracts that we let go to small and medium-sized enterprises; and about 46 per cent of the value of the contracts goes to small and medium-sized enterprises in Scotland. I want to increase that 46 per cent figure, because that will create jobs in Scotland and will help to get our young people off the buroo and into work—it is a plus-plus.

We have to operate within European procurement directives. At the moment, we are in the middle of implementing a reform programme, and I will give committee members a couple of examples of what we are doing, which will lead on to an answer to your second question. In our evidence to the review of procurement policy by the European Union, we have argued strongly for a number of changes to allow us to do exactly what Margaret McCulloch suggests. For example, we have asked that the threshold at which a contract has to go into the *Official Journal of the European Union* should be raised substantially. It is now many years since that threshold was established; it should be raised substantially and then uprated every year in line with inflation.

We have also asked that, when awarding contracts, we are allowed to take into consideration the economic impact of decisions. A recent example from south of the border is the train contract that went to Siemens in Germany rather than to Bombardier, which apparently led to up to 1,000 redundancies in Sheffield. Obviously, I am not familiar with the value of either the Bombardier tender price or the Siemens tender price, but I believe that European rules should be flexible enough to allow us to take into account that awarding a contract to a particular company might result in 1,000 redundancies. Before the contract is finally awarded, we should be able to take into account the cost to the taxpayer of those redundancies. If we were allowed to do that, we would maintain a level playing field across Europe—which is the main objective of the policy—but at the same time we would not get ridiculous decisions through which, to save a few bob on a contract, it costs a fortune because, for example, a company goes under or 1,000 people lose their jobs. That is what we are arguing but, unfortunately, the coalition Government south of the border refuses to back us on that. I find that strange, because I can think of many communities, not least in Sheffield, that would have benefited from such flexibility.

We are making changes within our own bailiwick and responsibility. For example, for small, micro and one-person businesses, to which the member refers, the pre-qualification questionnaire procedure is far too burdensome and bureaucratic. The PQQ must be resubmitted every time a tender is put in, it is far too long and many of the questions are irrelevant to the contract that is being bid for. We are in the process of introducing, with our local government colleagues, a new PQQ procedure under which businesses will not have to resubmit the whole thing every time they bid for a contract, and the questions will be only those that are relevant to the contract that is being tendered for. The whole thing will be simplified and made much easier, particularly for smaller businesses, although actually the process can be a burden on medium-sized businesses, too.

I am totally at one with you on the need to reform procurement. We are in the middle of a reform agenda, although the process needs to be stepped up and I am doing that. Further reform at European level would help enormously.

Margaret McCulloch: I am delighted to hear that, because those measures will make a difference, particularly for construction businesses.

Alex Neil: Exactly.

Margaret McCulloch: My final question relates to the hub projects. Do you have a model that works and is successful? If so, when do you expect the model to be used in my area, Lanarkshire? We are waiting for three new health centres—the new Hunter health centre and centres in Kilsyth and Wishaw.

Alex Neil: The hub model works. The first one will open in Edinburgh in the next two months or so, I think—very soon, anyway. Because of the approach to financing and construction and the way in which the hub projects will operate, the concept is popular with local authorities and other services, particularly health boards. We will send the member an update on where we are with the hub projects. The Scottish Futures Trust is in charge of making them happen and raising the money. We are happy to send the member an update on that and on the timetable in Lanarkshire. I will ask the SFT to send that to you.

Margaret McCulloch: Thank you.

Alex Johnstone: I am delighted by the idea that future contracts from Scotland might be issued to save jobs in Sheffield—I am with you on that one, cabinet secretary.

Alex Neil: You always take an international approach.

Alex Johnstone: I want to return to the broad theme that I questioned you on earlier—in spirit at least—but I will relate it to a specific project. We have in the pipeline the Aberdeen western peripheral route, which is being held up by a disgraceful and vindictive campaign and delay in the courts. Basically, you and I have no idea when the project will go ahead, but it is a big project. It is not in your top 10 list, but it is not far short of that. How do you deal with a problem such as the AWPR, which is a major project that might come on stream at short notice or could be delayed for years?

Alex Neil: I totally agree that it is outrageous that such a situation has been allowed to happen. We come back to European law. The reality is that that is how the system works as a result of European judgments and decisions. As you know, my colleague Kenny MacAskill is introducing legislation to try to avoid—where we can do so without falling foul of European law—a repeat of that kind of delay for such reasons in future. However, it is difficult to change the law in that area and remain within European law.

The answer is that, first, we fight the case robustly in the courts, because we fundamentally believe that the Aberdeen western peripheral route is absolutely essential to the economy of Aberdeen and the entire north of Scotland, particularly to the north-east. We remain committed to the Aberdeen western peripheral route. The minute that the case comes through the court and I am allowed to start digging, we will do that.

11:00

Alex Johnstone: I am sure that you will be there in your hard hat and your high-vis jacket.

Alex Neil: Absolutely. I could name a few people who are likely to be there.

Secondly—I do not want to say too much because we are still waiting for the judgment from the December hearing and I need to be careful about how far I go—the Aberdeen western peripheral route is part of the NPD programme and we hope that the NPD for the Aberdeen western peripheral route will be able to proceed as soon as possible. In the meantime, we have gone ahead and issued the prior information notice for the M8 bundle, which is part of the same NPD programme. If it looks as though there is going to be further delay, we will have to take some decisions about how we manage that, but I would rather not anticipate that happening because, hopefully, common sense will prevail and we will be allowed to get on with the job.

Alex Johnstone: On the subject of shovel-ready projects, is there any prospect of a junction at Laurencekirk?

Alex Neil: In all seriousness, I think that I am right in saying that Laurencekirk is not shovel ready, but I am conscious of the problems of the Laurencekirk junction. It is on our radar—as is, I should emphasise, the Maybole bypass. Clearly there is still work to be done at Laurencekirk before it gets to the point of being shovel ready. The definition of "shovel ready" is that it is ready to go to tender. We are very conscious of the challenges of the Laurencekirk junction.

Jamie Hepburn: I return to the issue of high-speed rail. By any standards, Justine Greening's statement was very disappointing for those of us who think that high-speed rail should come to Scotland. The committee will take an interest in that issue. Where are you in your discussions with the UK Government?

Alex Neil: Keith Brown and I met Philip Hammond and we hope to meet Justine Greening very soon. Last week, Keith Brown had a meeting with one of the other transport ministers in Glasgow. So we are in constant discussion with the UK Government and we are trying to get across to them that we need to see a timetable. People do not believe that the UK Government is committed to bringing high-speed rail to Scotland, and we can see that that is because it is not indicating that it is serious about it. It is high time that a timetable and a plan were agreed with us for bringing it to Scotland.

This is not just about the benefits for Scotland; there would be huge benefits to the economy of the British Isles in having a high-speed rail connection running from London right to the heart of Scotland. It would benefit not just people in London, Glasgow and Edinburgh and all points north and south, but people in Leeds or who are doing business in Manchester and so on.

Economists working in various universities around the world have indicated that improved internal connectivity is essential to international business success. If we are serious about reducing carbon emissions, aviation needs to make a contribution. The easiest way to do that is to divert people who would use internal flights on to the railway, and the best way to do that is to use high-speed rail. No matter which way you look at—in relation to the carbon reduction agenda or the economic growth agenda, or from the perspective of Scotland, the midlands, the north of England or London—everyone would benefit from bringing high-speed rail right through the heart of England to the heart of Scotland. I cannot understand why the UK Government will not set a deadline or target for that.

Jamie Hepburn: Is there any sense of the UK Government being cognisant of the fact that the Scottish Government is willing to contribute?

Alex Neil: We have made it absolutely clear that we are happy to sit down and discuss our share of the required commitment. There has never been any question about that.

I tried to persuade Philip Hammond, but he was then promoted to defence. I have not yet had a meeting with Ms Greening, but we hope to have one fairly soon. We will keep on pressing the case, and it would be helpful if the committee—and the Parliament, with a united front—could keep on doing so.

Jamie Hepburn: The plan is clearly embryonic, because—as you say—one does not get a sense that the UK Government is committed to high-speed rail coming to Scotland. A bit of planning is required on the route that would apply in Scotland.

It was interesting to hear you say that whether the route would go to Edinburgh, Glasgow or somewhere central has not yet been determined. I will gloss over the fact that my constituency—and indeed your constituency—is central, between Edinburgh and Glasgow.

Alex Neil: Shotts would be ideal.

Jamie Hepburn: I am sure that we will have that discussion later.

My understanding is that Edinburgh and Glasgow would like the line to go to both cities, with a connection in between. Is that still on the cards?

Alex Neil: Some transport experts are suggesting that it would be beneficial to have some kind of central Scotland terminus. From there, people could go north, east or west, or to other places south of Scotland. We will engage in such discussions as part of the implementation of our own investment plan—that is not difficult; the real difficulty is that we need a level of confidence in the Scottish business community and in wider Scotland that the UK Government is seriously committed to the plan. It does not matter what the constitutional arrangements are.

On the continent, this would have been done years ago. I used to travel a lot by train on the continent on business; I could travel through six countries in one day with no problem whatever. Those countries co-operated to get that done because they all benefited from it. That is exactly what should be happening here. Putting Scotland on the back burner in this way is not acceptable.

The Convener: We will move on to a hobby-horse of mine, which is asset management and maintenance expenditure. Annex A of the IIP identifies an annual total maintenance bill of £1,795.8 million, although it recognises that the data should be treated with caution. Audit Scotland recommended that the new plan should

"provide high-level analysis of the overall condition of the public sector estate, to enable the correct balance to be struck between building new infrastructure and maintaining existing assets."

Has a full assessment of the public sector estate been produced? To what extent was the current state of assets taken into account in prioritising new projects and programmes?

Alex Neil: The SFT has produced a report in the past three or four months that showed that we could easily do with a 25 per cent reduction in the central Government estate overall, which would produce a saving of approximately £28 million a year when fully implemented. Another study looked at the wider public sector, including local government, and estimated that around £500 million of savings could potentially be made over a 10-year period with more effective use of the Government estate.

We have now charged the SFT with looking at implementation of the recommendations, because that money could be going to front-line services rather than funding rental for offices and other things that we do not need.

The Convener: You will be aware that the David Hume Institute and others support the procurement of public projects in a manner that takes into account on-going maintenance to maximise the lifetime of assets. When I was Minister for Schools and Skills, a particular bugbear of mine was that schools were just allowed to deteriorate so that we had to rebuild instead of having a maintenance programme.

Alex Neil: I share that view. We should not go for what is apparently the cheapest price—we must consider the whole picture. Printers are a good example. It might seem obvious to go for the cheapest printer, but if we consider the number of cartridges that it will get through, we find that it would be better to go for the more expensive printer, as we would have paid for the price differential within three to six months. After six months, we would be in credit, in comparison with where we would have been with the cheaper printer.

It is not the cheapest price but the best value that matters, and that must include running and maintenance costs. That is where we need to get to.

The Convener: Audit Scotland published a report on "Management of the Scottish Government's capital investment programme", which contained a series of recommendations for a new IIP. To what extent were those recommendations—I will not go through them—taken into account in drawing up the new plan?

Alex Neil: I shared a platform with Robert Black, and I take this opportunity to congratulate him publicly on getting a CBE in the Queen's new year's honours list; it was well deserved. He seemed to indicate that he was satisfied with the plan. The report is fairly recent—it came out around the same time as the plan itself—and we are taking it and its recommendations very seriously.

We believe that we are already doing a lot of what Robert Black suggests, but we are always open to new ideas and finding ways to do things better. We are going through the report, and we will implement as many of the recommendations as we possibly can.

The Convener: I see that no one has any further questions. I thank you and your officials, cabinet secretary.

Alex Neil: It is a pleasure—thank you.

The Convener: That session was very interesting. I suspend the meeting briefly to allow the witnesses to leave.

11:12

Meeting suspended.

11:15

On resuming—

Subordinate Legislation

Bus Lane Contraventions (Charges, Adjudication and Enforcement) (Scotland) Regulations 2011 (SSI 2011/442)

Bus Lane Contraventions (Approved Local Authorities) (Scotland) Order 2011 (SSI 2011/443)

Bus Lanes (Approved Devices) (Scotland) Order 2011 (SSI 2011/444)

The Convener: Item 3 is consideration of three negative Scottish statutory instruments relating to bus lanes. I refer members to the cover note and to paper ICI/S4/12/1/2. Members should note that no motions to annul have been received in relation to the instruments. Are there any comments?

Members: No.

The Convener: Does the committee agree to make no recommendations in relation to the instruments?

Members *indicated agreement.*

The Convener: That is fine.

Meeting closed at 11:15.

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