



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 11 September 2013

Session 4

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
16th Meeting 2013, Session 4

CONVENER

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

DEPUTY CONVENER

*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

COMMITTEE MEMBERS

*Jim Eadie (Edinburgh Southern) (SNP)

*Mary Fee (West Scotland) (Lab)

*Mark Griffin (Central Scotland) (Lab)

*Alex Johnstone (North East Scotland) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Kay Barton (Scottish Government)

Margaret Burgess (Minister for Housing and Welfare)

Caroline Gardner (Auditor General for Scotland)

Dick Gill (Audit Scotland)

Linda Leslie (Scottish Government)

Fraser McKinlay (Audit Scotland)

Carolyn Smith (Audit Scotland)

Steven White (Scottish Government)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 6

Scottish Parliament
**Infrastructure and Capital
Investment Committee**

Wednesday 11 September 2013

[The Convener *opened the meeting at 09:30*]

Interests

The Convener (Maureen Watt): Good morning. I welcome everyone to the 16th meeting in 2013 of the Infrastructure and Capital Investment Committee. This is the committee's first meeting following the summer recess.

People who are interested in the committee's work and its future meetings may be interested to know that we are now on Twitter. They should feel free to follow us.

I ask everyone to switch off their mobile phones, as they affect the broadcasting system. Witnesses should note that some members of the committee consult their tablets rather than hard copies of the papers. They will therefore access briefing papers for the meeting on their tablets.

Under agenda item 1, I welcome Mary Fee and Mark Griffin, who are new members of the committee, and invite them to declare any relevant interests.

Mary Fee (West Scotland) (Lab): I refer the committee to my declaration of interests on the parliamentary website.

Mark Griffin (Central Scotland) (Lab): I have no interests to declare.

The Convener: Thanks.

I thank Elaine Murray and Margaret McCulloch for their worthwhile contributions to the committee's work and wish them well in their new committees.

**Decision on Taking Business in
Private**

09:33

The Convener: Under agenda item 2, do members agree to take items 5 and 6 in private to allow the committee to consider its scrutiny of the 2014-15 draft budget and to consider the evidence that we will hear later from Audit Scotland?

Members *indicated agreement.*

Housing

09:33

The Convener: Under agenda item 3, we will take evidence from the Minister for Housing and Welfare on a range of housing issues. I welcome the minister, Margaret Burgess; Kay Barton, who is deputy director of the housing supply division of the Scottish Government; Linda Leslie, who is team leader in the Scottish Government's housing strategy team; and Steven White, who is head of the Scottish Government's housing options and services unit.

Would you like to make some opening remarks, minister?

The Minister for Housing and Welfare (Margaret Burgess): Yes. Thank you, convener. I will make some comments about the housing bill that we will introduce later in the year.

The housing bill will contain a range of provisions that will protect tenants, support improvements to the quality of housing and secure better outcomes for communities. The bill's main provisions will be to end all right-to-buy entitlements; introduce a regulatory framework for letting agents to tackle those who do not meet industry standards of professionalism and conduct; create a new specialist private rented sector housing tribunal; increase flexibility in the allocation and management of social housing so that landlords will be able to deliver improved outcomes for their tenants and the communities in which they live; and give local authorities greater enforcement powers to improve the quality of houses in the private sector by requiring owners to carry out work to repair or maintain their properties.

The measures will benefit all sectors and tenures. For example, ending the right to buy will prevent the sale of up to 15,500 social rented houses over the next 10 years, protecting the existing stock of social rented homes and enabling social landlords to help the many people in need of social housing. The provisions on the private rented sector will improve protection for tenants in a sector that has more than doubled, from 5 per cent of homes in 1999 to 11 per cent in 2011. I look forward to discussing the bill in detail following its introduction later in the year, and I hope that I can answer any questions that members may have this morning.

The Convener: You mentioned the main policy aims of the forthcoming bill, but I noticed that you did not say anything about modernising the licensing of mobile homes and park homes, which we discussed before the summer recess. Is that going to be in the bill or not?

Margaret Burgess: It will be in the bill. We intend to improve the registering of licensed site owners and to put a time limit on the length of site registration, which currently runs for ever. We intend that to be part of the housing bill.

The Convener: Do members have questions on the general aspects of the bill, or shall we wait and see?

Alex Johnstone (North East Scotland) (Con): I shall reserve judgment.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I noticed that, in the affordable housing supply programme, which was announced on 8 July, the City of Edinburgh Council's allocation had increased to £88 million. Can you clarify how much is currently allocated to the three-year affordable housing supply budget in total? Is the £44 million in increased subsidy additional money?

Margaret Burgess: The total affordable housing supply budget is just under £950 million. The additional £44 million that was announced is new money to the affordable housing supply budget and it came from a variety of sources. Some was from the £20 million that the Cabinet Secretary for Finance, Employment and Sustainable Growth announced from consequential, some was an unallocated sum and there was some underspend in the regeneration in housing portfolio and other portfolios. That is where the £44 million came from, and it was added to the affordable housing supply budget, so that money is new to affordable housing.

Gordon MacDonald: Was the additional support per unit—roughly £16,000 per home—introduced because banks were failing to lend, or because housing associations were not using all their reserves? What was the reason for increasing that subsidy by £16,000?

Margaret Burgess: As you may be aware, I set up a short-term working group of major stakeholders to look into the issue, which had been raised on a number of occasions. The reasons for increasing that subsidy were that banks were not lending to social landlords and that financing for social landlords had been repriced, and the welfare reforms are also having an impact on social landlords.

We set up the short-term working group to look at subsidies in particular, as stakeholders were telling us that, with the current subsidy rate, they would have difficulty meeting the target that we had set. The figure of £16,000 was the top end of what they recommended, but anything else would have been a short-term measure and we would have found ourselves back in the same situation. I have to add that the change has been welcomed

across the sector. Landlords are saying that they can now meet their programme, and some that have not been doing so can start developing again.

Mary Fee: I want to be absolutely clear about where the £44 million came from. Is it new money, is a portion of it new money, or is it—as I understood—underspend and unallocated funds?

Margaret Burgess: I will ask Kay Barton to come in on this, but what I tried to say to Gordon MacDonald was that the £20 million that John Swinney announced in May was consequential money and new money for the Scottish Government. There was also an unallocated sum. Would I be right to say that it was £7 million?

Kay Barton (Scottish Government): There was £10.8 million that was unallocated from earlier in the year. It had been announced for housing, but not specifically for the affordable housing supply programme.

Margaret Burgess: The rest was a £5.9 million underspend from other portfolios.

Mary Fee: Outwith housing?

Margaret Burgess: It was outwith housing, then it came to housing. So, £44 million was added to the affordable housing supply programme.

Mary Fee: Will that be split over the three years or is the intention to use that money in one year?

Margaret Burgess: The money has been allocated in two ways—£24 million in 2013-14 and £20 million in 2014-15.

Mary Fee: What is the projected number of affordable houses that you intend to build with the £950 million in the affordable housing budget?

Margaret Burgess: We have said clearly that we have a target of building 30,000 affordable houses by the end of this Government's term. The £44 million is not for building additional houses; it is to help to ensure that the target is met with the housing associations and landlords who told us that they would be unable to meet the target with the subsidy of £40,000. We increased the subsidy to ensure that we can meet our target.

Mary Fee: So the £44 million is to be used only for the housing associations.

Margaret Burgess: No. It is for affordable housing and will be distributed through the resource planning assumptions to local authorities, as all of the affordable housing supply budget is.

Mary Fee: There is a forecast for the number of houses that you will build. Are you on track at the moment? How many houses have been started?

Margaret Burgess: We are on track to meet our target for houses. Kay Barton has a chart with the figures on that.

Kay Barton: In 2011-12, which was the first of the five years, we built 6,882 new affordable homes, and in 2012-13 the figure was 6,009. In the first two years, we achieved more than 6,000 per annum.

Mary Fee: What impact do you think the increase in the subsidy will have? How many additional homes will be built because of that?

Margaret Burgess: I repeat what I said on that. The increase in the subsidy was not specifically to increase the number of houses being built but to ensure that the target could be met and that housing associations and local authorities could continue to build. Because of the welfare reforms and the bank lending situation, they were struggling to be able to meet our targets with a £40,000 subsidy. For that reason, we increased it. Had we increased it but not given the additional money, we would have had a higher subsidy but fewer houses.

We are on track to meet our target of 30,000 houses by the end of the current session of Parliament. The subsidy was increased for that reason. We did not increase the subsidy and ask housing associations and local authorities to build more houses.

Mary Fee: Is there a plan to increase the subsidy further?

Margaret Burgess: There are no plans at present to increase the subsidy further. There have been no requests for us to do that. We listened carefully to our stakeholders and we considered a range of subsidies between £10,000 and £16,000. It was clear that a subsidy of £10,000 would have been only a short-term solution and anything in between would have been short term, too. We took the bold decision to make it £16,000, which was the highest figure that the group came up with.

Mary Fee: Okay. Thank you.

The Convener: How many of the houses will be built by councils? Do you have any idea of their distribution throughout the country? In some parts of the country, including my area of Aberdeen, there is huge pressure on the housing supply. How is the money allocated across the country?

09:45

Margaret Burgess: The money is allocated to local authorities under the formula that we have agreed with the Convention of Scottish Local Authorities. Each authority determines its own local housing strategy and the housing demand

and need in its area and it then works with partners, whether it be housing associations or whatever, to determine where the houses will go, what size they will be and whether they will be built in partnership with housing associations or developers or by the local authority itself. After all, council houses will not be built in areas where, for example, there is stock transfer.

Alex Johnstone: I want to briefly explore the figures that have been highlighted in the past few minutes. You appear to be saying that progress against targets was not below trajectory before you added the additional grant and that, when the additional grant is added, progress against targets will not be above trajectory. In that case, what is the extra £16,000 per house for?

Margaret Burgess: What I was saying is that, although we met our targets in the previous two years, our stakeholders—social landlords and developers—told us that it was going to be difficult to continue to do that given the difficulties that they were facing with the welfare reforms and bank lending, and that they were going to be struggling to maintain the level of house building. That is why we increased the subsidy.

Alex Johnstone: So the additional subsidy was designed to achieve targets in coming years.

Margaret Burgess: Yes, and to maintain the level of house building.

Alex Johnstone: Thank you for clarifying that. I also want to ask about the Government's priorities within the targets. In housing debates, the Government often compares the number of council houses that are being built with the number that were built in the past, but it seems to ignore the fact that, in recent years, many social houses have been built not by councils but by housing associations. Is the Government in its structure and logic intending to prioritise council houses rather than housing association houses?

Margaret Burgess: That is not the Government's position. We want two thirds of our affordable housing supply to be in the social rented sector, but it is not up to us to determine whether those houses should be council houses or housing association houses. That brings me back to my comment to the convener that this is all about local authorities determining what is appropriate and right for their areas. It is not about the Government saying whether the houses should be council or housing association houses.

Alex Johnstone: So housing associations will be able to benefit from Government policy and support.

Margaret Burgess: They are benefiting from both and will continue to do so.

Alex Johnstone: Indeed.

Apart from the subsidy levels, how is the Scottish Government taking forward the recommendations in the financial capacity, affordability and development subsidy working group report?

Margaret Burgess: The group is about to be reconvened to consider and discuss the other proposals, which were mainly about the flexibility of subsidy in properties that might require more than the subsidy and the possibility of building properties below the subsidy level. With such flexibility, we can take all such issues into account. Other issues will also be considered, such as the timing of payments to landlords and housing associations. We had already made some improvements in that respect prior to the group's creation, but we intend to take forward its recommendations in full.

Alex Johnstone: With regard to the convener's comments about the regional distribution of housing investment, will the working group take into account the fact that financial capacity might vary in different parts of Scotland?

Margaret Burgess: The flexibility relates to where it is more expensive to build a house, such as in rural areas, where the subsidy is already higher in any case. The working group will look at flexibility in hard-to-build areas when it is reconvened.

Alex Johnstone: So we will avoid the scenario in which, by subsidising the construction of social housing where it is cheapest to build, we end up with the unfortunate consequence of building houses in areas where there are not the same employment prospects as there are in other parts of the country where it is more expensive to build.

Margaret Burgess: The allocation goes to local authorities and they determine what is right for their areas; they do not determine what is right for a different local authority area. I am not sure whether I am picking you up right.

Alex Johnstone: I am concerned that the Government's geographical priorities may be different from the priorities of the economy. Are you offering a reassurance that that is not the case?

Margaret Burgess: What I am saying is that it is not the Government that determines where houses are built. Local authorities have the overall strategic view on where houses go in their area. Government finances are distributed to local authorities under an agreed formula, and they determine the number and types of houses and where they are built, whether they are housing association houses or other affordable housing.

Mark Griffin: The figures show that house building completions by the private sector have

fallen continuously in the past nine years. What measures is the Scottish Government taking to help the sector?

Margaret Burgess: I will say a couple of things in response to that. First, I do not want to downplay in any way the fact that the house building sector and the construction industry face challenges, but it is significant that, in terms of house building per head of population, Scotland is outperforming the rest of the United Kingdom. It is important to recognise that our social housing building in particular outperforms that of every other country in these islands.

We have designed a number of initiatives to help the house building industry. We have set up the national housing trust, the MI—mortgage indemnity—new home scheme, the new supply shared equity scheme and the scheme to allow infrastructure developments to take place. As the Deputy First Minister announced recently, we have allocated £120 million to Scotland's help to buy scheme, which is our version of the scheme that the UK Government announced. We are working with stakeholders, the Council of Mortgage Lenders, Homes for Scotland and the industry to get that scheme up and running and we hope that it will be in place soon. We are doing a considerable amount to help the house building industry.

Mark Griffin: The £120 million fund was announced in May. How will the scheme operate? When will the full details of the programme be announced?

Margaret Burgess: We have been working on the scheme for some time. Bearing in mind that the UK Government announced the scheme without any consultation with the Scottish Government or any indication of how it could operate in Scotland given the different systems that we have, we are fairly close to having the scheme in place. An announcement will be made as soon as possible. We are aware of the urgency to get the scheme up and running. We have been working hard with Homes for Scotland and the Council of Mortgage Lenders to ensure that the scheme will work within our legal and housing systems. We already have 25 builders who are willing to participate in the scheme.

Mark Griffin: Will it run on a similar basis to the scheme in England or will there need to be drastic changes from how it operates down south?

Margaret Burgess: There will be differences. Kay Barton will give the details.

Kay Barton: It will be as similar as we can make it to the English scheme because that is what the house building industry has told us will be most helpful for it. It will also help the lenders if the two schemes are similar because they will have to

make only minimal changes to their systems to accommodate the buyers who will come in through the programme.

We are nearly there with the legal documentation, which has all been shared with the lenders and the house builders. As the minister said, a number of the house builders have already signed formal commitments to enter the scheme. We are nearly at a point at which we can launch it so that the public can take advantage of the season over the next couple of months, which is traditionally one of the major seasons for the purchase of new homes. As the minister said, we are pretty well poised and ready to go. We do not yet have a launch date to share with the committee, but the launch will take place shortly.

Mary Fee: I have a brief question about the shared equity scheme, which you touched on in your answer to Mark Griffin. Can you give me a bit more information on the uptake of the scheme? What work is the Government doing to promote it? I understand that there was also a shared ownership scheme. Can you give me some information on that? Is it still actively being used and, if not, what has happened to it?

Kay Barton: We could write to you with details of the take-up of our previous and current shared equity schemes, which are a mixture of open-market shared equity schemes—when someone buys an existing house or flat on the open market and the Government takes a stake—and the schemes for new homes that are run with housing associations and developers. We could give the committee a breakdown of the take-up over the past few years.

We ran the shared ownership programme for a period. A few years back, we evaluated all our low-cost home ownership schemes and found that shared ownership had some disadvantages, particularly for the buyer. Therefore, that scheme is not available any more, although there are a number of shared owners who retain their conditions. In particular, there were various issues to do with service charges that shared owners were liable to pay, such as difficulties in predicting what those might be and hence what people's financial commitments would be.

Mary Fee: Okay. I would appreciate some further information on that.

Mark Griffin: In the past, the committee and Audit Scotland have raised issues to do with the reporting of the housing budget, the transparency of in-year revisions and additions, and outcomes from the spend. What will the Scottish Government do to improve the reporting of information relating to its housing budget?

Margaret Burgess: We have produced detailed outturn reports since 2008 but, as you mentioned,

the reports do not currently take into account in-year revisions. We are looking at doing that in an effort to be more transparent and helpful, and to make things easier for people.

In addition, we publish quarterly reports, which identify the number of social rented houses and the number of houses for mid-market rent and affordable rent. I think that that is helpful and provides greater transparency, and it represents an addition to what was previously done.

We are considering better reporting of the in-year revisions, so that we can show clearly the additions that have been made to the budget throughout the year.

Mark Griffin: As well as reporting the in-year revisions, will you report on the outcomes that are achieved as a result of those revisions?

Margaret Burgess: Absolutely. Completions are part of what we currently report.

The Convener: Mary Fee has questions on the private rented sector.

Mary Fee: The minister will be aware that there is now a greater reliance on the private rented sector, and I am pleased that the Government has produced a strategy for that sector. Will you give me a bit more information on how that strategy will be developed, what you would like it to do and what input the sector has had?

Margaret Burgess: The private rented sector has had considerable input to the development of the strategy. We worked closely with the sector and other stakeholders to produce it. As you will be aware, we have already taken action in regard to the tenant information pack and the tenancy deposit scheme.

We are now looking at regulating the letting agent industry. Although the industry is good in some areas, we have had feedback that some letting agents have not been professional in conducting their business, which brings the whole private rented sector into disrepute. We are therefore keen to look at that. We want to ensure that customer confidence in the private sector is maintained and increased and to encourage growth of the private sector through attracting large-scale investment. We have supported Homes for Scotland in doing a piece of research on trying to get a high level of investment into the private sector for large-scale development. The majority of the private sector is made up of small landlords with one or a few properties.

10:00

Mary Fee: You mentioned the regulation of letting agents. How do you envisage that working?

Margaret Burgess: As the housing bill comes forward, we will look at that and come back to the committee on the issue. I certainly envisage looking at accreditation, licensing and a whole range of things to ensure that the service that people get from letting agents is consistent across the country. People need to know what to expect and what to do if they have any issues.

Mary Fee: Will there be anything in the regulations about security of tenure and long-term leases, as well as protection for rent levels?

Margaret Burgess: We are looking at security of tenure. The private rented sector strategy group, which was originally set up to look at the whole private rented sector, is being reconvened to look at tenure. The issue was not consulted on at the outset of the bill process and it will not necessarily be included in the bill. We are, however, looking at the issue in more detail and we will legislate on it if necessary. It is still to be discussed and consulted on.

Mary Fee: Finally, I want to ask about the tenant deposit scheme. Have all private landlords now lodged the deposits in the appropriate places? I know that only 50 per cent of landlords had lodged deposits by May. Have all deposits now been lodged? Will there be further regulation to ensure that landlords do that?

Margaret Burgess: Landlords have a legal obligation to lodge deposits—that is clear. The scheme is relatively new, but we constantly review it and, if further regulation is required, we will consider that. The issue is covered in the tenant information pack. Tenants are to be told that landlords must lodge their deposits with one of the schemes. We encourage that.

I do not have the latest figures in front of me, but perhaps Steven White has them.

Steven White (Scottish Government): I do not, but we can certainly supply them.

Mary Fee: I would appreciate it if you could get me the latest figures.

The Convener: If no one has anything else to ask on the private rented sector, I will move on.

Minister, the demographics in Scotland are changing, as they are in other countries. How much input do you as minister have into the health and social care agenda? Housing is an important part of the health and social care agenda, given the need to build the right houses for older and more disabled people.

Margaret Burgess: Housing is absolutely crucial to the health and social care agenda. We are working closely with other departments to look at that link. The joint improvement group is also looking at it. We have also asked the local

commissioning partnerships to produce a housing contribution statement within their commissioning plans. We will be monitoring and reviewing that situation.

I understand that there is some unease that housing has not been given the priority that it should have received within the health and social care agenda, so we are working hard to ensure that it gets that priority and that its importance is recognised.

We very much support the provision of houses for varying needs. In the past year, almost 600 houses have been built specifically for older persons. In all the new developments that I have visited, considerable thought has been given to who is going to live in the house and how the house can be designed so that they can remain in it in the future. That is being considered. Our increased subsidy will help that, as in some instances it costs a bit more to build a house that is future-proofed, for want of a better word.

I recently visited a house that is built in such a way that, although it is not obvious, it is suitable for hoists to be put in later if required. Such houses are being built not just for older people, but for general housing. However, especially in the case of older people, there is a recognition that people's needs now might not be the same as their needs in the future, and it must be possible to adapt houses to meet their needs with as little disruption as possible. There is a lot of good stuff going on around that just now, which we support. The local authorities and strategic housing providers are looking at it as well.

The Convener: Are some councils better at that than others? You make it clear that it is up to the local authorities to decide their housing priorities, although the Government provides the money. Do you have any leverage with local authorities to ensure that they build houses that are future-proofed in terms of not just the health and social care agenda, but the climate change agenda?

Margaret Burgess: We ask local authorities to look at our sustainable housing strategy, as they must meet some of the targets in that. The future-proofing of houses is up to local authorities but, when they put their local housing strategies together, they must take into account the needs of older people in their communities. For local authorities and housing providers, future-proofing is a preventative measure, because doing it now saves them having to do it in the future. That is now recognised and we are happy to promote it in our discussions with local authorities. Builders are conscious of it, too, and have come up with innovative ideas on how to do it, including how to address the costs.

The Convener: How is the adaptations working group's report being taken forward by the Scottish Government in conjunction with local authorities and housing associations?

Margaret Burgess: We agreed the recommendations of the adaptations working group, which were published in December last year. Having read the report in detail, we agreed the recommendations, particularly those on adaptations being person centred, tenure blind and coming from one single pot of money. We have recently invited people to join a new group to take that forward. I think that we wrote to them recently.

Linda Leslie (Scottish Government): It was last week.

Margaret Burgess: It was last week. The previous group existed to make the recommendations, and we have now written to people asking them to join the group to take those recommendations forward.

The Convener: Do we have any way of measuring how a house being properly adapted saves people having to move into residential care or more sheltered housing?

Margaret Burgess: Fairly robust evidence on that has been provided by one of the special needs housing associations. We and local authorities recognise that, if adaptations are right and take into account the person's needs, that prevents people from having to move on and saves money in the long run.

Jim Eadie (Edinburgh Southern) (SNP): I was interested in what you said about the recognition of housing's role and its importance in addressing the wider integration agenda. Do you agree that that investment is more cost effective for Government than unplanned emergency admissions to hospital and that it delivers better outcomes for older people?

Margaret Burgess: We all, including Government, have agreed that the preventative approach is the way forward and produces better outcomes. We want to make it absolutely clear that housing features in the health and social care agenda. We all recognise that good-quality housing that suits people's needs and is adapted to their requirements prevents hospital admissions. It also prevents people from having to move and perhaps go into residential care.

Jim Eadie: On addressing the demographic challenge to which the convener referred, can you provide the committee with specific details on the level of specialist provision that is being made available from the affordable housing budget and, specifically, the current affordable housing supply programme?

Margaret Burgess: I am not sure whether we have those figures in that detail, because the money for the affordable housing supply programme goes to local authorities and they determine what they need. Last year, just under 600 houses were built for elderly people, and those were part funded by the Scottish Government.

I ask Kay Barton whether we have the figures for the previous years.

Kay Barton: That was the figure for 2012-13. We will check whether we have other years' figures and will let the committee know.

Jim Eadie: That is helpful. As well as providing useful figures on the number of homes, would it be possible to provide a figure on the proportion of the overall housing budget that is allocated to the specialist needs of older people and disabled people? I feed in that request and I am sure that the officials will do their best to fulfil it.

Margaret Burgess: We can consider whether that is possible. I do not know whether we have that figure.

Jim Eadie: Thank you.

The Convener: We move on to homelessness.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): Some really encouraging figures have recently been published regarding a significant fall in homelessness applications to local authorities. I think that there was a 13 per cent drop from 2011-12 to 2012-13. I understand that you attribute that to the housing options approach and the prevention strategies that are being adopted at local level. However, in some circles, people are saying that the approach is perhaps being too robustly applied and that some people who ought to register as homeless are being discouraged from doing so. How do you respond to that charge?

Margaret Burgess: There is anecdotal evidence from some organisations that that is the case, but we have been provided with no evidence and have no evidence to say that it is. Nobody should be prevented from making a homelessness application, even if the local authority is working with them preventively on other solutions. The options approach is an holistic approach that considers the individual and all their needs. It is preventive and is also often about getting at the situation before homelessness occurs. To be clear, nobody should be prevented from making a homelessness application. It is the right of people to do so. If any evidence comes to me that people have been prevented from making an application, we will consider that seriously.

We have maintained the group that was set up to monitor reaching the 2012 homelessness target

so that it can consider how to progress the agenda, ensure that we do not go back the way and consider any difficulties and pressure on local authorities that could arise. That group still exists and, if evidence comes to light that people have been prevented from making an application, I will certainly ask it to consider that seriously.

Adam Ingram: I presume that the group was set up to implement the housing options approach throughout the country. Is it monitoring the practice of the approach and feeding back information to you?

10:15

Margaret Burgess: I attend that group. I feel strongly about homelessness and reducing the number of people who are homeless in our country. The issue therefore has a high priority, through the group. We are examining every aspect of homelessness. We should not forget where the homelessness legislation in Scotland sits with regard to Europe. It is groundbreaking and it is well respected among other countries, which are looking at us and our legislation. I am keen to ensure that that continues. We have recently developed a monitoring tool for all local authorities to ensure that there is absolute clarity and uniformity in how they present their homelessness statistics to the Scottish Government, and that will start to operate from 1 April 2014. It will be evidence based and robust.

The monitoring group is examining strategy at a high level. We are currently considering issues that have been raised about the condition of temporary accommodation. The group will look at every aspect of homelessness and, where changes have to be made, we will seek to do that.

Adam Ingram: That relates to a question that I was going to ask about temporary accommodation. I understand that its use is decreasing in the country overall, but that it is increasing in some areas of the country, despite the fact that homelessness applications are reducing. Do you have any feel for or understanding of what is going on in that regard? What can we do about it?

Margaret Burgess: Its use is increasing in some areas, as you rightly say, which I think is because more people are being assessed as being eligible for permanent accommodation, given our 2012 commitment. We are looking at that.

There are pressures in some areas. In other areas, however, the housing options approach has been used, and preventive measures have been in place for longer. There has been a reduction in the use of temporary accommodation in those areas. As we travel on, that will happen in other local

authority areas, too. I recognise that, at the moment, because of the changes in some areas, there has been an increase in temporary accommodation.

Adam Ingram: So we are talking about a work in progress—it is a direction of travel.

Margaret Burgess: We will constantly be looking at temporary accommodation, and it is the current priority of the 2012 group. I call it the 2012 group, although I know that it has a new name—it escapes me at the moment.

Adam Ingram: Clearly, the welfare reform agenda is likely to have a significant impact on the homelessness agenda, particularly given the impact of the bedroom tax and issues such as that. Perhaps that is not clear. Can you tell us your view? What kind of feedback are you getting on the impact of the welfare reform agenda? How is it affecting homelessness in Scotland?

Margaret Burgess: I do not want to use the word “perception” but, at the moment, we are of course concerned about the impact of welfare reform on homelessness. It is too early yet to know whether it has had an impact. The homelessness figures are still coming down, and we want to maintain that reduction. We have to be aware that there could be an impact not just from the bedroom tax, which is one particular aspect of welfare reform, but from the wider welfare reform measures that are coming but have not yet been implemented by the UK Government. There are other measures that cause me concern with regard to their impact on homelessness. We will monitor those closely to try to prevent their effects before they are implemented. There is no direct evidence yet of an impact on homelessness because of the bedroom tax or welfare reform. It is early days for that.

Adam Ingram: You are still talking through what you can do to mitigate the impact, if an impact emerges.

Margaret Burgess: The Scottish Government has already put in place several measures to mitigate the impact of welfare reform. We continue to consider measures for lessening the burden on vulnerable people and families in particular. We have not given up on that—it will continue. We will also continue to raise the matter with the UK Government at every opportunity. There are real issues with the impact of welfare reform on devolved matters in Scotland, such as housing. Housing is devolved to Scotland, but a lot of the finance in housing comes from housing benefit. There is a mismatch between the two, and we are seeing how our policies are being undermined. We will continue to take up the issue with the UK Government. We are always considering ways to

mitigate the impact of welfare reform on the people of Scotland.

Mary Fee: I have a question about young people and homelessness. The minister is aware that there is no one particular reason why people become homeless, nor is there one solution. However, there are some stark and particular circumstances around young people becoming homeless. I am thinking specifically of young care leavers. Does the Government intend to do any specific pieces of work that are aimed at young care leavers to prevent them from becoming homeless or to give them additional support?

Margaret Burgess: The Government supports a number of measures for young care leavers. Under the Children and Young People (Scotland) Bill, local authorities will have a duty to provide care to people up to the age of 25, which includes helping them into accommodation. There is no doubt—nobody would argue about this anywhere—that if someone is supported into accommodation and while they are in that accommodation, that prevents the homeless revolving door cycle. That is very much in the mind of the Scottish Government and in my mind.

During the summer recess, I visited a number of projects that deal with young care leavers who are supported by Scottish Government-funded measures and by the third sector, working in partnership with local authorities. Where there is good practice, we are trying to get it rolled out and extended to areas where the practice may not be so good. It is an absolute commitment that young care leavers are entitled to get that support so that they get the chance in life that they deserve.

The Convener: That is a positive note to end on—unless anybody has any other questions.

I thank the minister and the officials for coming and giving evidence today.

10:22

Meeting suspended.

10:28

On resuming—

“Scotland’s key transport infrastructure projects”

The Convener: Agenda item 4 is the Audit Scotland report on “Scotland’s key transport infrastructure projects”, which was published before the recess. The Public Audit Committee, which has responsibility for considering Audit Scotland reports, took evidence on the report last week from the permanent secretary and senior Scottish Government officials; it also heard from the Auditor General for Scotland.

The Infrastructure and Capital Investment Committee has a close interest in the major infrastructure projects that feature in the report, and in the recommendations that the public reporting of such projects should be improved. I welcome to the committee Caroline Gardner, the Auditor General, and, from the performance audit and best value team, Dick Gill, portfolio manager; Fraser McKinlay, director; and Carolyn Smith, project manager.

Gordon MacDonald will begin the questioning.

Gordon MacDonald: The Audit Scotland report highlights the fact that most of the projects are

“on track to be delivered”

on time, and that all projects are

“within the latest approved capital costs.”

The report goes on to state that all five major projects are well managed through “sound governance structures”.

Given those comments, can you clarify why the report recommends improvements to control decision making and the scrutiny of projects?

10:30

Caroline Gardner (Auditor General for Scotland): Certainly. You are right to say that the report gives a good picture of the current status of all five projects. It also recognises that the projects are live and on-going, and large and very complex, so there are still risks to be managed in getting them through to completion as expected, on time and on budget.

We found that, for two projects in particular, the business cases had not been kept fully up to date as there were changes to either the scope of the project, the timescales or the funding mechanisms that were being used. We think that it is good practice to keep the business case up to date at major decision points so that there is a trail that shows the basis on which decisions were made,

and so that assurance can be given on the affordability, viability and value for money of projects. That is not to take away anything from the good achievements of the Government and Transport Scotland in getting projects to this stage, but we think that it would help to manage the risks in getting the projects through to the final stage as planned.

Gordon MacDonald: Can you explain how reporting on capital projects has improved over the past 10 years?

Caroline Gardner: Certainly—we see improvements at two levels. First, at the overall level, it is clearly a good thing for the Government to have put in place a cap for the total level of commitments that it expects from revenue financing of capital projects, using mechanisms such as the non-profit-distributing model and the regulatory asset base for rail projects. We think that the next step would be to start developing reporting on the way in which commitments against that cap have been made and what the long-term consequences are. That would be a good step in developing transparency and clear financial reporting for the Parliament and for others who have an interest.

At the second level, we have seen the introduction of the Government’s six-monthly reports on major capital projects coming to the Public Audit Committee and other interested parties. Again, that is a good move for transparency, but we identified through our audit work that the costs that are included in the report are not always consistent or comprehensive. For example, the cost of enabling works is not always included for some projects, whereas it is for others, and the way in which things such as inflation and contingency allowances are included varies from project to project.

We think that, building on the introduction of those reports, it would be more useful for everyone who has an interest if we can progress by making them more comprehensive and consistent so that everybody knows what is in them and what is not.

Gordon MacDonald: You mentioned the introduction of the six-monthly reports. When were they introduced, and what was the scenario prior to their introduction in terms of reporting to Parliament?

Caroline Gardner: I am not sure whether I have a date, but Dick Gill will be able to help me with that.

Before their introduction, there was really not very much transparency in reporting to Parliament. It is an area that has developed since the Parliament was established in 1999 as people’s interest has grown, as the importance of

transparency has become clear and as the complexity of capital financing has increased, with the use of different vehicles for financing capital rather than just the capital allocations within the Scottish block.

Dick Gill (Audit Scotland): The Scottish Government started its six-monthly reporting to what was then the Audit Committee in mid-2009, I think—it was certainly during 2009. That followed the “Review of major capital projects in Scotland: How government works” report that the Auditor General presented in December 2008, which was our first comprehensive review of major capital investment in the health and central Government sectors. That report identified a shortfall in public information about those large and important projects.

The Scottish Government fully accepted that there was scope to improve, which was why it introduced the six-monthly project reporting. Peter Housden acknowledged at last week’s Public Audit Committee meeting that it had been a step change for the Government, which was seeking to build on that strong foundation.

Gordon MacDonald: To be clear, are you saying that for the first 10 years there was no reporting to committees on capital projects?

Dick Gill: There was no systematic reporting, in the sense that the six-monthly report identifies every project in the central Government and health sectors that is expected to cost more than £50 million. Previously, of course, there was ad hoc reporting on individual projects, and some projects would have been subject to legislation, so there would have been reporting, but there was not systematic and consistent reporting.

Gordon MacDonald: The five projects that the report looks at are only partially completed. For example, the Aberdeen western peripheral route is at a very early stage. Has it always been Audit Scotland’s practice to examine projects at such an early stage, or is this the first such report?

Caroline Gardner: That is a good question. There is an assumption that audit is always retrospective and that it comes along at the end of the financial year and looks back at the accounts for the year. That is true, to a great extent, and a big part of our work. However, there is also a long record of our doing work that looks ahead at the way in which policy is being implemented, particularly for big and complex investments in which it is not very much help to come along afterwards and point out where things could have been done better. It is much more helpful to look at the progress that is being made, with the aim of making a constructive contribution and identifying things that could help with particular projects or be

a contribution to the management of the capital programme in future.

The Convener: You have highlighted more issues relating to Transport Scotland’s management of rail projects than to its management of road projects. Is that because there are more fundamental concerns about Transport Scotland’s management of rail projects? Is it because Transport Scotland is not directly responsible, as it is for the Forth replacement crossing, but must work with the UK body, which is Network Rail? What is the reason for more rail projects than road projects being highlighted?

Caroline Gardner: There are at least a couple of reasons. I will ask colleagues to come in after me to amplify what I am about to say. At the high level, one reason is that it is more complicated to do projects through the regulatory asset base than through direct funding, as with the Forth replacement crossing, or NPD, which is being used for the road projects. As you said, Network Rail is part of the rail projects, so there are different requirements. That brings its own challenges in terms of ensuring that all the information is available for good decision making.

The second reason is that, for the Edinburgh to Glasgow improvement package in particular, there was a late decision to reduce the scope of the required improvement projects to make them affordable within the funding that was available. That brings with it its own risks in terms of ensuring that what is planned in future is not only affordable but achievable, sustainable and so on.

Dick Gill or Fraser McKinlay might want to add to that.

Dick Gill: Strategic oversight of railway investment is a relatively new responsibility historically for Transport Scotland and the Scottish Government. One of the reasons for setting up Transport Scotland in 2006 was to have stronger control and strategic oversight of railway investment. There is a long-established track record in Scotland over many years of the Government supervising and controlling roads projects, but rail is a relatively new area in that regard. Of course, the decision-making framework is quite special in the railway sector because of the roles of Network Rail and the Office of Rail Regulation.

The Convener: Are you saying that because all those other bodies are involved in rail, it is much more difficult to get a clear picture?

Dick Gill: I am not sure that it is more difficult. It is a different environment for Transport Scotland to operate in and perhaps it is more complex.

The Convener: Do you want to comment, Mr McKinlay?

Fraser McKinlay (Audit Scotland): No, thank you.

The Convener: The report states that annual payments for road projects funded through the NPD model and rail projects funded through RAB are not made public during the earlier approval phases of projects. Why do you consider that to be an issue? How do you think that it might be resolved?

Caroline Gardner: As I said in answer to an earlier question, we think that it is good that the Government has set a cap for the amount of long-term revenue commitments that it wants to enter into for capital investment. It must be a good thing to ensure that those commitments are affordable. The next step in that is obviously to develop a mechanism for reporting what the cap is—it will change over time, because it is set as a percentage of the departmental expenditure limit—and to report what the commitments are against it.

We recognise that there are some sensitivities in that respect. For example, it would not be sensible for the Government to publish its estimates of the costs of a large project before it was committed at contract stage, because that would weaken its position with bidders and tenderers in negotiations. As a result, we have suggested that it explore public reporting with regard to portfolios or groups of projects such as roads, schools and so on. We think that that will be the next stage in making the setting of the cap—which is a good first step—valuable in practice in demonstrating how much of a commitment has been made against it and the amount of headroom for future investment.

Mark Griffin: I understand why there would be no early public reporting of NPD projects, but I am struggling to see why it would be commercially sensitive with regard to RAB borrowing. Can you go into some detail on that?

Caroline Gardner: I will ask Dick Gill to respond, because he knows much more about this than I do, but you are right to say that the issues are different for NPD and RAB. For NPD, it is about commercial sensitivity and I suspect that, for RAB, it is more about uncertainty until an agreement is reached.

Dick Gill: There is a commercial dimension to, and tension in, RAB-funded projects because Network Rail is an independent entity and, as we know, RAB is a commercial arrangement between Transport Scotland and Network Rail. Conventionally, a lot of people have said, “You cannot release this information because it is commercially sensitive,” but our view is that there is room for the public sector to be smarter about these issues. As a result, we recommend in our report that the reporting of costs be made at a

portfolio rather than project level, as that would take a lot of the commercial sensitivity—to the extent that it exists—out of the situation. It is important to be clear about the real public sector costs in the long term for all stakeholders who are looking at these projects.

Mark Griffin: So your understanding is that RAB borrowing is a commercial agreement between Network Rail and the Government and that the amounts of interest charged for different projects will vary.

Carolyn Smith (Audit Scotland): There is a standard rate for rail projects, which is agreed with the regulator. However, once a project has been scoped, the regulator has to assess its costs. Transport Scotland will specify what it wants; Network Rail will prepare cost estimates on that basis; and the regulator will then assess whether those costs are reasonable for that project. There can be some negotiation in that process.

Another aspect of commercial sensitivity in RAB projects is that Network Rail does not build the projects but contracts with other bodies. That relationship can be commercially sensitive; for example, although the main contract for the Borders rail project was let and the costs agreed, some of the subcontracts still had to be negotiated and there were still commercial sensitivities at the stage that we reported.

Mary Fee: The report highlights a number of concerns about Transport Scotland’s business case development and assurance procedures. Have the cost implications of Transport Scotland’s not complying with best practice been assessed? What guidance has been given on how Transport Scotland should and could achieve best practice and what should the Government be doing to ensure compliance?

Caroline Gardner: It is worth saying that we found all the projects to be well managed, given their current stage of development, and that governance arrangements for two of the projects were sound and properly in place. The other two projects—the rail projects—are still in development as a result of changes to either the scope or the financing and we have recommended that, in both instances, business cases should be kept up to date so that they are available at key decision-making points.

A wide range of guidance is available from the Scottish Government and the Treasury on business cases and project management. Dick Gill and Carolyn Smith will take you through that.

10:45

Carolyn Smith: The Treasury publishes guidance on preparing business cases, and it is

mandatory that all public bodies follow it. It is green book guidance. There is a five-stage process for developing business cases. There are the strategic business case, the outline business case and the full business case, and there are various assurance processes.

On top of the Treasury guidance, the Scottish Government has its own guidance on investing and decision making for major projects, which is in line with the Treasury guidance, and on top of that, Transport Scotland has its own guidance on preparing business cases. They are all aligned with the Treasury guidance. There is guidance on what should be included in the business case to demonstrate value for money, affordability and the viability of projects at the various stages and approval points. That guidance is out there, and we found that, in general, it was in place for all the projects, apart from updates to the business cases for the two rail projects at key points in the approval process.

Mary Fee: Does each set of guidance contain guidance on different things? Is one problem the fact that we are almost at a point at which there is guidance about guidance?

Dick Gill: As Carolyn Smith explained, there are different types of guidance. I think that the differences are essentially about specific local circumstances. The Treasury guidance is for the whole United Kingdom public sector and the Scottish Government guidance obviously deals with specific Scottish requirements.

A broader point is worth drawing out for the committee. Over the years, Audit Scotland has reinforced the importance of clear business cases as the basis for investment decisions, as we think that that helps decision makers to make good decisions, which is in the public interest. When we first reported on major projects back in 2008, the culture of business cases was less developed in the public sector than it is now. There has been quite a shift, including within Transport Scotland, towards developing business cases as tools to assist decision making. We now see it as good practice for business cases to be tools that are continuously updated through the life of the projects so that, as circumstances change, people continually review whether the project continues to make sense and provide value for money.

The shortcoming or gap that we identified in relation to the two railway projects, for example, was not that they did not have a business case; rather, it was that Transport Scotland was not keeping the business cases fully up to date, although it was making very important decisions about the two projects. In our judgment, that necessitated a revisit of the business case simply on the grounds of prudence and good decision making. Circumstances changed, so did it still

make sense to proceed with the project in that way using that delivery route?

Mary Fee: Are you confident that the circumstances that you have talked about will not happen again and that there is more awareness of the importance of constantly reviewing processes as they are gone through?

Dick Gill: This answer is quite subjective, but my belief is that Transport Scotland thinks that business cases are an extremely important part of the process. Perhaps our view about how regularly those business cases needed to be reviewed was slightly different from its view. Our judgment was that, in the example of the Borders railway, in which the procurement route had to be changed because the NPD route did not work, it would have been appropriate and would have made sense to look again at all the basics around the project at the stage when the fundamental way in which it was being procured was being changed. Transport Scotland had the slightly different view that it was continuing to develop the project and that it would look at the proper business case at a later stage. It was therefore a question of degree rather than there being a fundamental gap in some areas.

Mary Fee: Do you think that further steps need to be taken to ensure that there is best practice?

Dick Gill: Yes; we have made some recommendations about that. For example, one of our recommendations on page 8 of the report is about scheduling decision making across Government. We say that the Scottish Government should

“by December 2013 refine and develop its plan for scrutinising, challenging and monitoring major investment projects.”

That is about scheduling decision making so that there are no surprises about when projects reach key stages, and integrating individual project decisions with wider decisions, such as decisions around help with the overall railway investment programme. Some wider decisions have to be made about that. It is about integrating and about smarter decision making within Government.

Fraser McKinlay: I will make a similar point to the one that Dick Gill just made. December 2013 is a really important point for us in all this. We expect to see progress on a number of recommendations, including the one that Dick just mentioned, by the end of this calendar year. Also included in those recommendations is the first one on page 8, which is for Transport Scotland to look at how it does business case development and the assurance processes around that. I do not think that we are necessarily at a stage today of saying that Transport Scotland will or will not have done that. It has certainly committed to reviewing the things that we have highlighted in the report and

we will keep a very close eye on progress towards the end of the year and into early 2014.

The Convener: But there is no indication in what you have said so far in this meeting and at previous committee meetings that there is anything in particular to worry about.

Caroline Gardner: We do not think that the gaps that we have seen in relation to the two rail projects have had any significant impact on the decision making or on their progress. However, we think that for both projects, given the significant changes that were made either to scope or to the financing method quite late on, it would be very good practice and good risk management for Transport Scotland and the Government to ensure that all the information is in one place in order to be able to step back and consider affordability, viability and value for money before significant decisions are made. That is why we made the recommendation.

The Convener: We move on specific projects. Alex Johnstone wants to ask about the Forth replacement crossing—or the Queensferry crossing, as I should call it now.

Alex Johnstone: The report says that the project is on track to complete within the latest cost estimate and on—or ahead of—schedule. Yesterday there was a further reduction in the estimated outturn cost. Does the view that is expressed in the report continue to be your view, given that further reduction?

Caroline Gardner: The costs for the Forth replacement crossing have always been expressed within a range of estimates, and so far the Government has been successful in keeping the costs within that range as the contract was let and as work has been done, with the most risky part of the work now heading for completion. The further reduction is within that range of estimates and is obviously good news in releasing resources that can be used to fund other projects in future.

Alex Johnstone: When the project was first discussed and costs were first put on it, the figures were extremely high—high enough to provoke debate in committee and in Parliament about why it would be so expensive to do this project compared with other projects in other parts of the world. Were those original figures truly robust or were they simply overestimates to make the figures look good in the long term?

Caroline Gardner: This is a classic example of how the estimated costs for a project become more accurate over time as there is greater clarity about what the project is, how it will be constructed and how it will be financed. Dick Gill and Carolyn Smith will talk you through the history of those estimates in broad terms to give you a

feel for why the estimates shifted so significantly over time.

Dick Gill: We comment in paragraph 21 of the report about the changing scope of the Forth replacement crossing—or the Queensferry crossing, as it is now known. The essential difference was that when the higher estimates of more than £3 billion—I cannot remember the exact figure right now—were prepared, the expectation was that it would be impossible to maintain the existing crossing safely and that it would have to close. Therefore, the replacement bridge would need to be an entire replacement. Since then, the engineers have had another look at the cables that are holding up the existing bridge and they have taken a less pessimistic view. That resulted in advice to the Scottish Government that it would be feasible to continue to use the existing bridge on a limited basis.

Therefore, we understand that the Forth replacement crossing project—essentially, it is about two bridges—now involves maintaining the existing bridge, to be used principally for public transport, and building a new bridge that is to be used for private cars and goods vehicles.

The decision to continue to use the existing bridge meant that the scope of the new bridge could be significantly reduced, so the new bridge will be smaller than it would otherwise have been. Our understanding is that that explains the significant fall in the estimated costs. Other technical factors are possibly involved, such as changes in the treatment of the cost of capital, but the significant change in the scope of the project helps to explain the large reduction in costs.

Let me briefly make the point that, although the original estimate may have been on the high side, it was probably in the public interest that people were provided with a full estimate of cost, even if that proved to be rather high, rather than with a very low estimate. Historically, low estimates have been associated with getting projects through that have subsequently proved to be a lot more expensive. We certainly have examples of that in Scotland and the Government was very risk averse in that area. I think that it was wise to look at higher costs rather than lower costs.

Carolyn Smith: The initial estimate was in the region of £3.2 billion to £4.2 billion. That was for a completely different project, so we did not look at the robustness of those cost estimates as part of our audit. The scope had changed to such an extent that there was no value in us looking at that original estimate.

Our baseline for the audit—we reported the figure so that we could be clear and transparent about how the costs have moved and the reasons for that—was the full business case that was

approved, which gave a range of £1.4 billion to £1.6 billion. The recent announcement of savings of £145 million is close to the potential savings that we reported. On page 20 of our report, exhibit 4 identifies a potential saving of £151 million, which is very close to the £145 million.

Alex Johnstone: Would it be fair to say then that yesterday's announcement is simply an indication that the project is being carried forward efficiently and effectively?

Caroline Gardner: I think that it is fair to say that. That is clearly good news for all of us, as the saving releases funds that can be used to invest in other capital priorities.

Alex Johnstone: In general terms, would it be fair to say that, given its performance so far, the project is something of an exemplar as to how such projects should be carried out?

Caroline Gardner: It is always nice for us to be able to report good news coming out of our audit work. Clearly, the Forth replacement crossing project is being well managed within the business case that was approved by Parliament.

Alex Johnstone: Your report states that the Scottish Government has publicly reported the estimated increase in the operating and maintenance costs of the Forth replacement crossing but has excluded risks and optimism bias. What might that mean in practice?

Caroline Gardner: In practice, that does not have very much meaning on its own. We want to emphasise the bigger point that, when the Government and Transport Scotland report progress on major investment projects, it is important that the costs are comprehensive and that they are consistent between projects. How matters such as enabling works, the acquisition of land and so on are treated can vary between different reports. In particular, matters such as inflation, optimism bias and contingency allowances are sometimes included and sometimes excluded. We think that it is much better, both for the purposes of accountability for the money that is spent and for decision-making purposes, if such information is reported clearly and consistently.

Our report recommends that the Scottish Government work with the Parliament—the Public Audit Committee, this committee and the Finance Committee—to draw up a template for how that reporting might look in future and what level of projects should be included. We want to ensure that committees are not swamped by detailed information that they cannot make use of. I am pleased that the Government has accepted that recommendation. We will work with the Scottish Government's people and with the clerks of the Public Audit Committee to do that. This committee

may want to consider whether it wants to contribute to that thinking to ensure that the information that is produced in future meets its needs as well.

11:00

The Convener: We have a six-monthly briefing on progress from the Forth replacement crossing team. When the team comes before us, the questioning is fairly robust.

We move on to EGIP. Mark Griffin has a question.

Mark Griffin: Are you confident that phase 1 of the EGIP project can be delivered on time and on budget, especially given the uncertainty around changes to the project and the fact that we are still awaiting the full business case?

Caroline Gardner: As I said earlier, all these projects are live, large and complex, which means that it is impossible for us to give full assurance that they will be delivered on time and on budget.

The report makes it clear that some of the questions about the EGIP project are more open than questions about other projects are because of the recent shift in the cost—and therefore the scope—of the project to ensure that it is affordable. That is why we have recommended that Transport Scotland should update the business case and ensure that it is kept up to date, and we think that the public reporting to this committee, the Public Audit Committee and elsewhere needs to be consistent and comprehensive so that members have that assurance.

At this stage, we have no reason to expect, and do not foresee, that EGIP will go off track, but it is fair to say that the risks associated with that project are more significant than those associated with the other projects covered by the report.

Mark Griffin: Transport Scotland initially set a completion date for the project of December 2016. In your report, you state that Transport Scotland now expects

“to realise the full benefits planned for EGIP phase 1”

by March 2019. Who informed you that the project would be delayed from December 2016 to March 2019?

Caroline Gardner: I will ask Dick Gill and Carolyn Smith to take you through the source of the information reported on that one.

Carolyn Smith: December 2016 was the date given for the initial larger scale EGIP project, which was set at the time of the business case. Exhibit 4 in our report gives details of that. I think that the 2016 delivery date, at a cost of £1.1

billion, was approved in December 2011. After that, the project changed substantially, reducing the cost to £650 million. It meant that a different type of project was being delivered, so Transport Scotland had to go back and start rephasing and looking at what it was possible to deliver with £650 million.

While we were doing our work, the new scope of EGIP was still not entirely clear. Transport Scotland was working on what needed to be done in EGIP delivery phase 1 and what could be done later. The new EGIP phase 1 was completely different from the first phase 1, and Transport Scotland was unable to do some of the work until 2019. That was partly because Queen Street station had to be remodelled and the platform extended to allow the new trains to come in. Part of that work had to be rephased. It was not possible to get the new trains in until—I think—December 2018, which meant that the phase 1 benefits of increased capacity and more regular trains could not be realised until 2019.

Dick Gill: Just to be clear, the source of the information is Transport Scotland. We have confirmed the factual accuracy of the report with Transport Scotland, so there is no doubt in our mind about the March 2019 date. That was the best estimate available at the time and I think that it would be recognised by Transport Scotland.

Mark Griffin: Do you know whether Parliament has been made aware of that change?

Dick Gill: I believe that there was a statement.

Carolyn Smith: The 2019 date was in the six-monthly update to the Public Audit Committee.

Mark Griffin: So it was in the Government's six-monthly update.

Carolyn Smith: Yes.

Mark Griffin: Your report says that the full business case is expected to be completed by the end of May 2013, after which ministers will approve scope, cost and time targets. Has it been completed yet?

Caroline Gardner: We have not revisited that since the report was published. It is not something that came up in the evidence that was given to the Public Audit Committee last week, so we do not have any more formal information to provide to you at this point.

Mark Griffin: Are there any key milestones on EGIP that you feel that the committee should be made aware of to enable us to track the progress of the project?

Caroline Gardner: That is one of the things that we would expect to see in the updated business case. The business case is an opportunity to pull together all the planning for construction and other

work that needs to be done. That is the source that will enable Transport Scotland, the Government and the Parliament to identify the milestones for reviewing progress and working it through. That is one of the reasons why we think that the business case is extremely important, and we will be keeping it under review as part of our on-going audit work.

Fraser McKinlay: We set out in the second-last bullet point on page 9 the high-level things that we would expect to see reported on the individual projects. The date on that recommendation is December 2013. As Caroline Gardner says, hopefully, the discussions that are on-going will flesh out what the appropriate milestones are and exactly how they are going to be reported to Parliament.

Mark Griffin: So, in your mind, the full business case is of utmost importance in allowing this committee and the Public Audit Committee to scrutinise EGIP and ensure that it is on track, on time and on budget.

Caroline Gardner: Up-to-date business cases are an important part of the governance of any major project such as EGIP because they let you pull the whole picture together into one place. That is why we have recommended that the business case should be up to date and why Transport Scotland is committed to doing that.

As Fraser McKinlay said, a high-level discussion is going on about the information that the Parliament and its committees need to be able to monitor progress. That is still under way—it was only last week that the Government and Transport Scotland gave evidence to the Public Audit Committee. By next year, we would expect to see a clear plan for how the information will be reported to the Parliament, so that you can play your proper role in overseeing progress.

The Convener: We will move on to deal with the Aberdeen western peripheral route, which is of major importance to at least two people on this committee.

Your report highlights the fact that the Government arrangements for the AWPR scheme are currently being revised. Are you satisfied that that will not adversely affect the delivery of the project?

Caroline Gardner: Until recently, the project has had a difficult time, for a range of reasons to do with the planning system and so on.

The Convener: I think that it is more legal wrangling than planning, but go on.

Caroline Gardner: Well put, convener. Thank you.

At the point at which we did our audit work, we took reassurance from the fact that the project had reached a stage at which it was possible to plan for completion, and the governance arrangements that Transport Scotland had in place were good and effective. Clearly, that is not to say that things cannot go wrong—they can with any major project—but we did not highlight any concerns at that point about the likelihood of the project reaching completion on budget and on time.

The Convener: The project is very much still in its early stages, compared with the other projects that we are discussing today. Is it good to say in your report that those things will happen, given that it is at such an early stage? Would Audit Scotland usually look at such projects at such an early stage?

Caroline Gardner: We have in the past examined major projects that are under way, as I said before, because it is more useful to come in and look at the governance arrangements, the way in which they are being managed and the extent to which the planning for the future is robust and stands up to scrutiny.

You are right that the AWPR is at a fairly early stage, but our conclusion was that the governance arrangements that are in place are effective and that there is no reason to be more concerned than one would be about any other large project about the way in which the AWPR will move towards completion. That is not to say that things cannot go wrong, but we did not highlight any specific concerns about the way that the project is being managed.

I see that Dick Gill would like to add to my comments.

The Convener: Before Dick Gill comes in, I have a question. Are you saying that, in terms of public money—taxpayers' money—the bundling of the AWPR with the Balmedie to Tippetty project was a good idea and that the governance arrangements for the two projects, which have been brought together, have been satisfactory?

Caroline Gardner: For all five projects, what we have not done at this point is step back and examine the business cases for the overall investment. Our focus was very specifically on the way in which the projects are being managed to bring them in on time and on budget against the current estimates. We have therefore not examined the decision to bundle the two projects together. We started with the commitment to invest in that combined project and looked at the way that it is being managed.

Dick Gill may be able to shine a bit of extra light on that.

Dick Gill: We have not sought to examine the rationale for why the projects are a good use of public money, because we regard that as something for which ministers are ultimately responsible. We have looked at controls and decision making to ensure that the project is well managed and sound.

In the case of the AWPR, we have no reason to challenge the bundling that has taken place. My understanding is that that bundling makes sense because it means that the Government can include a project—the Balmedie to Tippetty works—that it would otherwise struggle to afford within its capital budget by including it as an NPD project. I think that that is the rationale.

If I may, convener, I will make a broader point. Part of the value of such reports is to provide assurance. We do not report by exception—we do not report only where things are going wrong. We think that it is very much in the public interest to report to the Parliament if we think that these very large projects are progressing successfully. In the main, that is the conclusion that we have drawn about most of the projects.

There is no expectation that we are seeking to criticise the projects; it is more about the fact that they are very large projects that are very important for people who live in Scotland, taxpayers and MSPs. It is therefore important that you have good information about how they are getting on; it is important to know if they are going well.

The Convener: I think that thousands and thousands of commuters in the north-east could tell you about the business case.

Dick Gill: Yes, I am sure.

Alex Johnstone: I could raise this point in relation to other projects, but I will raise it in relation to the AWPR and more generally. My questions are about the non-profit-distributing finance model. Your report expresses concerns about the risks associated with NPD finance being higher in the current financial climate. You also express concern about there being no public reporting of the 30-year costs associated with NPD procurement models. Does anything need to be said at this stage about the NPD funding model? Does it need to be refined, honed or developed further until we can be confident that it will work for such projects?

Caroline Gardner: I think that you have asked two separate questions. The first is about the NPD model itself. It is important to be clear that there is nothing wrong with financing capital investment through a revenue financing model, whether it be the NPD model, the private finance initiative, regulatory asset base funding or some other model. We all do the same when we buy a home with a mortgage; it is a way of spreading the cost

over a long period. There is no criticism of that approach in itself, particularly when capital resources are constrained and the Government is keen to give the infrastructure a boost and for the economy to get a boost from construction work.

There is a separate question about the NPD model itself. We do not so much express concerns about it as say that, in the current climate, it has been more challenging to find bidders who are willing to take on the available projects. We have seen that in particular with the Borders railway over the past couple of years, and it obviously brings with it a risk that costs will be higher than they would be in a different economic and commercial environment.

In the report, we do not evaluate the different models of private financing—that is not the report's purpose. However, we say that when capital investment is funded through revenue models it is very important that there is transparency about the 30-year commitments to which the Government is being bound. As I have said, setting the cap was a very good move by the Government in making it clear what it thinks is affordable in terms of finance by those methods. The next step is to develop a method for reporting what the cap is and how much of it is committed over a rolling 30-year window, to ensure that that is transparent to the Parliament and that people know how much headroom there is for decision making in years to come.

Alex Johnstone: Thank you.

The Convener: We move on to the M8 bundle.

11:15

Adam Ingram: As you indicated, your report is broadly positive about the development of the M8 bundle projects to date. Would you care to highlight any key milestones that the committee should be looking out for when scrutinising that project?

Caroline Gardner: In general terms, the business case for any project should be setting those key milestones, and they clearly come at the points when a contract is let, when significant construction is complete, and when the allowances for inflation, contingency and risk can be released—or not, depending on progress. I ask Dick Gill to pick up on more specific points on that bundle of projects.

Dick Gill: As we highlight in the report, one of the main risks is that it is an NPD-financed project, and the market for private finance has been difficult in recent years because of the financial crisis. At the stage when we had completed our work—we stopped our examination in May this year—the project was with the market and bids

had been invited, but several bidders were in contention and the biggest risk was around whether any of those bidders would be able to come up with an affordable and viable financing package.

I understand that Transport Scotland announced a few weeks ago that it has now moved to the preferred bidder stage, which means that it has selected a bidder, and presumably it has done so on the basis that that bidder has provided a viable financing package, although we have not examined it and I do not have any information about it. That is an important milestone, but the key milestone, obviously, is the contract award point, because it is at that point that there will be certainty about the financing costs, which are a risk for the project. I am afraid that I cannot recall the exact timetable, and I would mislead the committee if I tried to give you a date. It is towards the end of the year, I believe, but I cannot remember the precise date. We can let you have a note of that information, if it would help.

Adam Ingram: You talked about NPD, and in that context we can highlight the Borders railway project. What impact has switching from NPD to RAB funding had on the delivery of that project?

Caroline Gardner: At this stage, it has not had an impact on the costs of the project, because we are still in the process of finalising the exact arrangements, but it has obviously had an impact on the timescale for the project, because the original procurement that was intended to go through NPD was not successful because of the commercial environment, so extra time was needed to move through the regulatory asset base funding model and to get the work in progress from there. There has been an impact on the timescale, but it is too soon to say what the impact on the cost might be.

Adam Ingram: You mentioned that the M8 bundle had attracted a number of interested parties, but we had only one competent NPD bid for the Borders rail project. What lessons can be learned from that?

Caroline Gardner: I will ask Dick Gill to talk you through some of the specific comparative aspects of those two projects, but you are absolutely right. Part of the value of the report lies in its providing a basis for learning lessons for the future for the projects that we are talking about and, more important, for the wider pipeline. Given the amount of money that we are talking about, that will be critical.

Dick Gill: I am a bit cautious about the lessons that can be learned, but when we discussed the issue with Transport Scotland its view was that one of the factors that led to its being unable to progress the Borders railway as an NPD project

was that it was a rail project. Using NPD and private finance initiative finance for railway projects is a novel idea; in fact, I am not sure that it has been done before. If it has been, it is quite rare. NPD and certainly PFI-financed projects are much commoner in the road sector; there is a track record in that respect, and the market is familiar with them and comfortable with providing them. The lesson for Transport Scotland was whether the Borders railway project was, as a railway project, really suitable for that form of procurement. I might be wrong, but I am not aware that it is advancing any other NPD-financed railway projects.

We also have some information about the financial impact of the move from PFI to RAB. As far as the financing of the project is concerned, Network Rail has a lower financing rate than a typical NPD provider, and because the financing charge that it will levy is significantly lower than might otherwise be expected, the savings on the long-run costs can be quite significant. There were also some important changes in how Network Rail proposed to strike a balance between current investment and future maintenance costs; indeed, one of the large changes was the proposal for a more capital-intensive project that it thought would provide value for money in the long term through savings in long-term maintenance. However, it is really for Transport Scotland to give you the detail on that.

In short, at the time there were some quite significant changes that went wider than simply switching the method of procurement.

Adam Ingram: It raises the question of why one would ever consider NPD rather than the RAB funding route for a railway project. Was there any logic to the initial decision?

Dick Gill: I am not sure that I can offer much of an insight into that.

Caroline Gardner: That would be a question for the Scottish Government and Transport Scotland rather than for us.

Dick Gill: One comment that I can offer is that Transport Scotland—or perhaps I should say the Scottish Government—has become increasingly interested in the concept of regulatory asset base finance. I cannot remember the dates, but the original decision to procure the Borders railway as an NPD project would have been made in 2010 or even earlier, and since then the Scottish Government has seen scope for including more projects in the regulatory asset base than it might have expected when it was making decisions on the Borders railway. However, I am speculating a little and I would be cautious about taking that as the right answer.

Jim Eadie: We have covered a lot of ground this morning, but I want to ask a final couple of questions just for completeness. Ms Gardner and Mr Gill indicated earlier that the new six-month reporting mechanism that has been put in place for major transport infrastructure projects represented an improvement on previous practice. How has another Scottish Government innovation—the establishment of the infrastructure investment board—strengthened the scrutiny of high-value projects?

Caroline Gardner: As we say in the report, the introduction of the board was a good thing and has helped the Scottish Government keep a strategic overview of its investment in significant infrastructure. As its creation came in the middle of a number of major projects, we also point out that the extent to which it has been able to play the full role envisaged for it has varied depending on the state of play in each project at the point at which it came into being.

We made some recommendations on integrating the board's work with other decision-making and reporting processes to help make it even more useful, and I think that it provides a really helpful focus for some of our recommendations about reporting against the revenue consequences of capital investment decisions and reporting on the cost and time performance of individual projects. In general terms, however, we think that it is a good innovation that with a few more tweaks might fulfil its full potential.

Jim Eadie: It is useful to have that on the record.

Your report also recommends that in order to promote openness and public accountability the Scottish Government should consult this and other committees on

“a threshold value for routine public reporting of ... major ... projects”.

What would be the benefit of such a move? Do you have any view on what the threshold value should be set at?

Caroline Gardner: The point of that part of the recommendation is that there is obviously a balance to be struck between giving you full and comprehensive information and giving you so much information about so many projects, some of which are quite small, that it would be very difficult to step back and see the wood for the trees. At the moment, there are different thresholds for different types of reporting; the figure of £20 million has been discussed in that respect, but this committee, the Public Audit Committee and the Finance Committee should all have the chance to say what the threshold should be below which the information would be too detailed and above which

it would simply be at too high a level of aggregation to be of any use.

Jim Eadie: Can I encourage you to give us a figure? For example, when Sir Peter Housden gave evidence to the Public Audit Committee last week, he mentioned two figures. He suggested a threshold of £50 million for what is reported on a six-monthly basis and said that the Government is already providing information on the web for projects of more than £20 million. Do you have any figure in mind?

Caroline Gardner: Yes—and I will ask Dick Gill to respond in a moment. We are really not trying to obfuscate; what we are saying is that there is already a lot of information out there and that it should all be pulled together in one place to ensure that it is available to this committee, other parliamentary committees and anyone else with an interest. Dick Gill will talk you through the different figures that have been discussed and where we think we might come down.

Dick Gill: We do not necessarily have a view on whether the threshold should be £50 million or £20 million. However, we certainly think that there should be clarity on the issue and that it is not terribly helpful to have different reports with different thresholds because that gives different populations of projects.

Our general thinking on the issue is that there is an opportunity for the Parliament to receive and the Scottish Government to provide slightly more strategic information. The Public Audit Committee receives a regular six-monthly report on all projects over £50 million but, although there is a lot of detail about individual projects, it is quite hard to get the big picture. At the same time, the Scottish Government publishes other information that stakeholders find interesting about its future pipeline of investment projects, and its threshold for that is £20 million.

Our view is that the Parliament would benefit from more strategic and complete information. That might involve a £20 million threshold, which would give you more comprehensive information, but we are nervous about the Parliament being overloaded or bombarded with a lot of project-specific information. Whatever threshold is set, careful consideration needs to be given to the form of reporting and the information and data that you as stakeholders would find most useful. There is an opportunity for smarter summarisation, clearer exception reporting and other such issues that do not really feature in current reporting.

Jim Eadie: That was helpful—I thank you for considering MSPs' workload.

I beg your indulgence, convener, to ask a final question about the issue raised by my colleague Mr Johnstone of the 30-year costs associated with

projects that are funded through either NPD or RAB. The report specifically mentions the fact that we do not have any public reporting on those larger projects, which over 30 years have a total estimated spending commitment of more than £5 billion. How can we improve that situation?

Caroline Gardner: The Government has accepted the principle that having taken the very positive step of setting the cap it now needs to report against it and to develop clarity about what the cap will look like over time and what has been committed against it with regard to projects that are already under contract and those that are in the pipeline and are well into development.

I do not think that it is our place to say how that could be done, but we have tried to set out some principles in the report. In his evidence to the Public Audit Committee last week, the permanent secretary said that the cabinet secretary might well address the issue in his budget statement this afternoon. We will look closely at the format that the Government proposes but it is for the Government to propose the form of reporting. If we feel that there is room for further development, we will report on that in due course.

11:30

Jim Eadie: Like you, we are awaiting the cabinet secretary's statement with interest, but have you had any indication that the Government is sympathetic to such a move?

Caroline Gardner: The indication from the permanent secretary at last week's Public Audit Committee meeting was that the Government had accepted the recommendation and was thinking through the practicalities of how it should be done.

Jim Eadie: Thank you. I will leave it at that.

The Convener: Something that I thought was missing from the report—indeed, I think that it was mentioned only twice—was the Scottish Futures Trust. What role has it played in reducing the costs of major projects, recommending bundling and so on?

Caroline Gardner: We have not carried out specific work on the Scottish Futures Trust's role, its effectiveness in the ways that you have outlined or the benefits that it reported in its benefits statement earlier this year. We will certainly keep in consideration for our forward work programme an examination of its achievements so far to identify any areas where it could make further contributions to getting the best out of the Government's capital investment. However, the Scottish Futures Trust is not part of the report and I do not feel able to comment on it in a speculative way without doing the necessary audit work.

The Convener: As members have no more questions, I thank our witnesses for their attendance and evidence. We will deliberate on that evidence in private session, into which, as previously agreed by the committee, we now move.

11:31

Meeting continued in private until 12:10.

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