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Cabinet Secretary for Economy, Tourism and Transport

Introduction

This paper provides background for the evidence session with Stephen Flynn MSP, Cabinet Secretary for Economy, Tourism and Transport. The topics covered have been chosen based on proposals in the Programme for Government, matters raised in the Session 6 Net-Zero, Energy and Transport (NZET) Committee legacy report, and discussions at the Committee's recent business planning day.

Programme for Government

The Scottish Government published Ambitious for Scotland: Programme for Government 2026 – 2031 on 1 September 2026, which included the following transport related commitments.

Public sector reform: The Programme for Government includes five transport related public sector reform proposals:

1. Transport Scotland will cease to be an executive agency and return to being a part of the core Scottish Government.

2. The Scottish Government will consult on transferring the Mobility and Access Committee, an independent advisory committee providing advice on accessible transport to Scottish Ministers, into the Scottish Government.

3. The Scottish Government will review the functions of the National Smart Ticketing Advisory Board, an independent board established in 2023 under the Transport (Scotland) Act 2019 to advise Scottish Ministers on smart ticketing, to ascertain if it should be taken in-house, or placed elsewhere in the public sector

4. Explore the establishment of a single ferries body for the Clyde and Hebrides ferry routes and consider further reform options. It is unclear whether this will build on the conclusion of the Transport Scotland sponsored Project Neptune that CMAL and CalMac Ferries merge, or the recommendation in the Session 6 NZET Committee report A Modern and Sustainable Ferry Service for Scotland that CMAL and Transport Scotland ferries team be merged.

5. Review remaining transport bodies to identify opportunities for mergers.

Legislation: The only mention of transport related legislation is a commitment to "Engage on our plans to deliver Better Buses legislation within this parliament – to provide communities across Scotland with better bus services for commuting, shopping, socialising and accessing public services."

Bus fare cap: The Scottish Government committed to rolling-out a £2 bus fare cap in the Strathclyde Partnership for Transport (SPT) area from 7 September 2026, with the cap to be extended to the whole of Scotland by the end of this Parliamentary session.

Other transport commitments: The "growing the economy" section of the Programme for Government commits the Scottish Government to "supporting progress on the Clyde Metro proposals; addressing the issue of potholes; and improvements of key road links in rural areas, including work to progress proposals for medium and long-term solutions at the A83 Rest and Be Thankful." It also reconfirms the Scottish Government's commitment to the delivery of A9 dualling, and the delivery of advanced works on Inshes to Smithton link road and Nairn bypass section of the A96.

It also includes a commitment to directly award contracts for new vessels to the Ferguson Marine shipyard "…subject to necessary legal, commercial and subsidy control requirements." There is also a refence to the introduction of a private jet tax from financial year 2027-28.

Not mentioned: The Programme for Government does not include any mention of Edinburgh Trams, Aberdeen Rapid Transit, logistics, any extension of the Scottish heavy rail network, upgrades to the A75 or A77, car use reduction, or any new commitments relating to walking, wheeling, or cycling.

Bus regulation

The Transport (Scotland) Act 2019 allows for the creation of formal Bus Service Improvement Partnerships and Local Service Franchising, both of which are briefly described below:

Bus service improvement partnerships: A formal partnership between local transport authorities and bus operators, committing each to improving bus facilities and service levels.

Local Service Franchising: A system allowing a local transport authority to specify bus routes, timetables, and services standards within a designated area. Local service franchising can only come into effect once a local transport authority has developed an overarching franchising framework and then entered into franchise agreements with bus operators.

A franchising framework must specify:

- The area that it covers.

- The bus services to be provided.
- The period it will be in operation.
- Service standards to be provided under franchise agreements.

The franchising framework is implemented through franchise agreements, which are agreements between the local transport authority and local bus service operators under which:

- the local transport authority grants an operator the exclusive right to provide the services to which the agreement relates, which can include payment by the authority to the operator.
- that operator undertakes to provide those services on such terms as may be specified in the agreement.

The process to be followed by a local transport authority wishing to make a franchising framework can be summarised as follows:

- prepare a proposed framework.
- prepare an assessment of the proposed framework.
- obtain a report from an independent auditor on the financial implications of the proposed framework.
- consult on the proposed framework.
- if necessary, modify the proposed framework and, where the modifications materially affect an aspect of the assessment, go through the process of assessment and audit again; and
- obtain approval to make the proposed framework from a panel convened by the Traffic Commissioner [a UK Government appointed official responsible for bus operator licensing] for that purpose.

To date, Strathclyde Partnership for Transport (the Regional Transport Partnership for the Greater Glasgow area) has led the way in developing initial proposals for the creation of a franchising scheme, as set out in the Strathclyde Regional Bus Strategy.

£2 bus fare cap

Transport Scotland is currently running a year-long pilot of a £2 bus fare cap for single trips within the Shetland, Orkney, Western Isles, Highland, Moray, and Argyll and Bute Council areas. The pilot has a budget of £10 million. The 2026 SNP manifesto included a commitment to extend this cap across Scotland by the end of this parliamentary session.

Prior to the 2026 Scottish General Election, the First Minister stated “Within the first one hundred days, we will extend the £2 bus fare cap to Glasgow, Ayrshire, Dunbartonshire, Renfrewshire, Lanarkshire and Inverclyde”. The £2 fare cap will take effect in these areas from 7 September 2026.

Transport Scotland officials have advised SPICe that initial cost estimates for a national £2 bus fare cap are in the region of £200 million per year at current prices.

Bus operators and, bus user groups have questioned how the fare capping scheme would operate in practice, and whether it would offer value for money. They have also questioned whether fare reduction is an effective means of increasing bus patronage and encouraging modal shift from car travel.

Great British Railways

Building on a 2024 Labour Party general election manifesto commitment to reform Britain's railways, the UK Government ran a consultation, A railway fit for Britain's future, between 18 February 2025 and 15 April 2025. Following consideration of responses, the UK Government introduced the Railways Bill in the UK Parliament on 5 November 2025. The Bill is currently being considered by the House of Lords.

The Bill will establish a new publicly owned body, Great British Railways (GBR), which will act as a 'guiding mind' for the rail industry. GBR will run the passenger train services currently managed by the UK Secretary of State for Transport alongside the national railway infrastructure, currently owned by Network Rail – which is already an arms-length body of the UK Department for Transport. The Bill will also update the constitution and railway functions of the statutory passenger representative group Transport Focus, referred to in the Bill as "the passenger council".

Scottish Ministers will continue to own and operate ScotRail and Caledonian Sleeper services, and specify and fund GBR infrastructure management, maintenance, and enhancement in Scotland – as currently happens with Network Rail. The UK and Scottish Governments will be required to agree a Memorandum of Understanding setting out how they will work together. Scottish and UK Ministers will have powers to issue directions to GBR in relation to the exercise of its statutory functions, with a requirement to consult or obtain consent from the other prior to issuing such directions.

The Legislative Consent Memorandums

The Scottish Government lodged a Railways Bill Legislative Consent Memorandum (LCM) in December 2025, and a supplementary LCM in February 2026.

The effect of the UK Railways Bill on the technical aspects of the rail related executive powers exercised by Scottish Ministers is described in detail in the LCM documentation. The LCM states that:

> "…this Bill does not compromise the current executive powers of the Scottish Ministers. It will provide the Scottish Government with enhanced public sector options to deliver deeper integration of rail passenger and infrastructure services and improve the overall accountability of the rail system to the Scottish Ministers and the Scottish Parliament. Critically, it offers the opportunity to improve the efficient and effective delivery of services for the benefit of Scotland's rail users, businesses and communities. The Scottish Government therefore recommends consent to all of the clauses and provisions outlined in paragraphs 7 to 75 above."

A supplementary LCM was lodged on 20 February 2026 in response to minor and technical amendments made to the Railways Bill at the House of Commons Committee stage. The most significant of these included powers for the Secretary of State, the Scottish Ministers, and the Welsh Ministers to make statutory transfer schemes. Such schemes allow for the transfer of property, rights, and liabilities in connection with railways or the provision of railway services. This allows UK and Scottish Ministers to transfer property, rights, and liabilities to GBR, or a company jointly owned by any of: (i) the Secretary of State, (ii) the Welsh Ministers, (iii) the Scottish Ministers (e.g. ScotRail or Caledonian Sleeper) and (iv) Great British Railways.

Another amendment extended the requirement for the UK Government to obtain the consent of Scottish Ministers before exercising its power to make directions to GBR, where this would directly affect the exercise by GBR of functions on behalf of the Scottish Ministers.

The Scottish Government is supportive of these, and all the other, amendments made at the House of Commons Committee stage. The supplementary LCM stated:

> "It is the considered view of the Scottish Government that these amendments to the Railways Bill do not compromise the current executive powers of the Scottish Ministers…The Scottish Government therefore recommends consent to all of the amendments outlined in paragraphs 8 to 31 above…"

The LCM and supplementary LCM were considered by the Session 6 Net Zero Energy and Transport Committee, with the full Parliament agreeing legislative consent at its meeting of 24 March 2026.

It is possible that a further supplementary LCM may be required, depending on any further amendments made to the Bill by the UK Parliament.

New railway rolling stock procurement

Two significant ScotRail railway rolling stock procurement programmes are currently underway. These are:

- The replacement of the High Speed Trains (Class 43 power cars and Mark 3 carriages which are now over 40 years old) used on Inter7City services that connect Glasgow, Edinburgh, Perth, Stirling, Dundee, Inverness, and Aberdeen. In March 2026, ScotRail announced that it will be replaced by 22 diesel powered Class 222 Meridian trains leased from Beacon Rail, with Alstom providing maintenance services for a period of 10 years. The trains, which are around 25 years old, will undergo an £80 million refurbishment programme prior to delivery to ScotRail, supported by £67 million of investment from the Scottish Government. Trains are expected to enter service from late 2027, with the last units entering service by the end of 2028.
- Replacement of pre-privatisation British Rail suburban trains that operate on routes such as East Kilbride, Fife, Borders, and the Glasgow inner suburban routes, including services between Glasgow and Motherwell, Larkhall, Lanark,

and Shotts. ScotRail announced on 31 August 2026 that five bidders for at least 69 new dual fuel battery/electric, with options for up to 37 more, had been invited to participate in the next phase of the project. Trains are expected to be delivered in the early 2030's, and their deployment is dependent on the delivery of overhead electrification of sections of the rail network.

It is anticipated that, on introduction of these new trains, some of the rolling stock currently used on these suburban routes will be cascaded to secondary and rural routes, such as the West Highland Line, Far North Line and Kyle of Lochalsh line, replacing even older rolling stock currently used on those routes.

Major road projects

The following provides details of the three largest trunk road projects proposed by the Scottish Government, which would have a likely combined out-turn cost in the region of £8 billion to £10 billion.

A9 dualling: On 6 December 2011, the Scottish Government committed to dualling the 134 kilometres of single carriageway road on the A9 between Perth and Inverness. The project had an expected completion date of 2025, an estimated total cost of £3bn (at 2008 prices) and was to be delivered in 11 sections.

Following an initial spurt of progress, the project effectively stalled. Jenny Gilruth MSP, then Minister for Transport, made a statement to Parliament about the project on the 8 February 2023, by which time just two of the 11 sections had been built. She advised that the 2025 completion date would not be met and that an updated timetable would be provided to Parliament in autumn 2023. This timetable was provided in statement to the Scottish Parliament on 20 December 2023 - this set out a revised completion date of 2035, a decade later than originally planned, and revised plans for the delivery of the project in six sections, four built using traditional capital funding and two potentially delivered using a privately financed Mutual Investment Mode (MIM), with a decision on whether to proceed with this approach dependent on market testing and value for money assessment.

The Scottish Government announced on 14 January 2026 that it had abandoned plans to use MIM funding and instead intended to fully fund the programme using traditional capital funding – which will require investment of more than £3 billion over the next 10 years. Work is currently underway on several sections of the route, including:

- **Tomatin to Moy:** under construction, dualling expected to be operational by the end of Spring 2028

- **Tay Crossing to Ballinluig:** under construction, dualling expected to be operational by end of 2028.

- **Pitlochry to Killiecrankie:** procurement underway, contract award expected Autumn 2026, dualling expected to be operational by end of 2030.

A96 Dualling: The A96 is a trunk road that links Inverness (Raigmore interchange) and Aberdeen (Craibstone roundabout). It passes through, or around, several towns including Nairn, Forres, Elgin, Keith, and Inverurie.

The dualling of the Inverness-Nairn section of the road was first mentioned in the final report of the Scottish Government's Strategic Transport Projects Review, published in October 2009, which slated it as a priority for investment. The Infrastructure Investment Plan 2011 then committed the Scottish Government to the dualling full length of the A96 between Inverness and Aberdeen by 2030, following the completion of A9 dualling – which was then expected to happen by 2025.

Transport Scotland launched a consultation on options for dualling the A96 between Inverness to Nairn in November 2013 and, following consideration of issues raised during this consultation, announced a preferred route in October 2014. This was followed by the publication of Draft Orders, which when approved give legal authority to build the road, in November 2016.

A public inquiry was held in late 2018 to consider objections to specific proposals in the Draft Orders. Following consideration of the report of the public inquiry, Scottish Ministers agreed that the Orders could be made subject to amendment. The Road Orders and Compulsory Purchase Order were made on 22 February 2024 and came into force on 12 March 2024.

The Bute House Agreement, the joint policy programme of the SNP and Scottish Green Party Government between August 2021 and April 2024, committed the Scottish Government to a review of the A96 dualling project – the resulting A96 Corridor Review being published in November 2024 and subject to a consultation that ended in February 2025. Following this, the Scottish Government remained committed to the full dualling of the A96, with the Inverness-Nairn section bring the initial priority.

The latest update on the Inverness-Nairn dualling project is provided in the answer to a Parliamentary Question published on 3 February 2026, which committed the Scottish Government to the phased dualling of the A96 – starting with the Nairn bypass section of the larger Inverness-Nairn dualling project. No firm timescales or budgets were identified in this answer.

Rest and be Thankful: The Rest and be Thankful, the summit of the pass on the A83 trunk road between Arrochar and Inveraray, has suffered a significant number of closures due to landslips over recent years. When closed, the diversionary route via Crianlarich adds roughly 60 miles to each one-way trip.

Since 2007, Transport Scotland has invested over £16 million in landslip mitigation works at the Rest and be Thankful and the provision of an alternate route along the 'Old Military Road'. Work on these measures continues.

Following a significant period of investigation and analysis, Transport Scotland announced its favoured option for a solution to the issue of landslips at this location – a debris flow shelter and catch pit along the exposed section of the current route (known as the Access to Argyll project).

This is a challenging engineering project that will take several years to deliver at a cost of around £400m to £470m at 2023 prices. The draft Road Orders for this project were published on 13 December 2024. The period for formal objections to be lodged closed on 7 February 2025. When asked about project progress on 18 June 2026, the Minister for Business and Fair Work stated:

> "Following the publication of draft orders, Transport Scotland continues to progress the proposed medium-term solution through the statutory authorisation process. Construction of the medium-term solution can only commence if approved under the relevant statutory authorisation process. Thereafter, a timetable for construction can be determined."

Regional air services

The Committee heard from key players in the provision and support of regional air services in the Highlands and Islands at its meeting of 24 June 2026. While this meeting focused on the withdrawal of flights by Loganair, it also touched on wider issues of support for regional air services, delivered through the mechanisms including:

Highlands and Islands Airports Ltd: The Scottish Government owned and funded Highlands and Islands Airports Limited (HIAL) is responsible for the management and operation of eleven airports - Barra, Benbecula, Campbeltown, Dundee, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree, and Wick John O'Groats.

Public Service Obligations (PSOs): A PSO is an agreement between the national or local government and an airline to provide a specified level of service on a particular route. In return for providing this service, the operator is typically guaranteed exclusivity on the route and may be paid a subsidy.

The creation of PSOs is limited by retained EU state aid law and it is not possible to impose a PSO on a route between two cities or regions on which adequate services are already being operated commercially. Any decision to support the creation of a new air PSO is a matter for the Scottish Government or relevant local authority.

Air Discount Scheme: The Scottish Government funded Air Discount Scheme provides residents of Shetland, Orkney, the Western Isles, Islay, Jura, Colonsay, Caithness and north-west Sutherland with a 50% discount on the core air fare on eligible services – mainly flights between Highlands and Islands airports and Aberdeen, Edinburgh, Glasgow. The "core air fare" is the fare charged by the participating airline, excluding any taxes, fees, charges, or surcharges – which do not benefit from the discount.

The Air Discount Scheme does not apply to passengers on PSO flights, business related travel, or NHS funded trips. The Scottish Government expects Air Discount Scheme support to be around £15 million in financial year 2026-27.

Island Residents Fares: Residents of Barra, Tiree, Coll, and Vatersay can apply for an Islands Resident Fares Card that offers capped fares on the PSO routes between Glasgow Airport and Tiree or Barra.

The Committee heard calls both for additional financial support and for a new approach to the planning, development, and operation of a comprehensive network of air services in the Highlands and Islands.

New ferries

The Scottish Government is funding a significant programme of ferry building for both CalMac Ferries which operates Clyde and Hebrides services, and Northlink, which operates between mainland Scotland and Orkney/Shetland, including:

MV Glen Sannox and MV Glen Rosa: In October 2014, the Minister for Transport launched the procurement process for two large vessels for use on the Clyde and Hebrides Ferry Services network (MV Glen Sannox and MV Glen Rosa). The vessels were originally intended to serve the Ardrossan-Brodick (Arran) route and the ‘Uig Triangle’, that is routes serving Uig, Tarbert and Lochmaddy. The vessels were to be powered by hybrid marine gas oil/Liquid Natural Gas (LNG) engines.

On 16 October 2015, CMAL awarded two separate contracts for the vessels to Ferguson Marine Engineering Ltd, each contract was for a fixed price of £48.5 million with delivery dates for the two vessels of May and July 2018. There then followed years of delays, cost over-runs, and the eventual nationalisation of the shipyard. MV Glen Sannox was finally entered service more than seven years late in January 2025. MV Glen Rosa is still under construction with an expected delivery of late 2026. Total costs for the two vessels are yet to be established but are now well over £400 million.

MV Isle of Islay and MV Loch Indaal: CMAL launched a competitive tendering exercise in June 2021 for the construction of two new vessels to serve CalMac’s Islay routes. The vessels will each have a capacity for up to 450 passengers and 100 cars or 14 commercial vehicles. Cemre Marin Endustri were identified as preferred bidder in March 2022, with the contract agreed later that month. Expected delivery dates for the two vessels were October 2024 and early 2025, with each vessel costing approximately £44.5 million (excluding spares). MV Isle of Islay entered service in March 2026 but has suffered a number of technical problems that are being addressed under warranty. MV Loch Indaal is currently slated for delivery in October 2026.

MV Claymore and MV Lochmor: The Scottish Government announced in October 2022 that funding would be made available to CMAL to commission two new vessels for Little Minch routes (also known as the ‘Skye triangle’ – serving Uig, Lochmaddy and Tarbert). CMAL announced in February 2023 that Cemre Marin Endustri were preferred bidder, to build two vessels of a similar design to those being built for Islay. Construction started on the two vessels in May 2023, with expected delivery dates of June and October 2025 and a total project cost of £115 million. MV Lochmor is currently due for delivery in Q1 2027 and MV Claymore in Q2 2027.

CMAL wrote to the Committee on 31 August 2026 advising of these new delayed delivery dates for the Loch Indaal, Claymore, and Lochmor. The Cabinet Secretary wrote to the Committee on the same day to advise that Scottish Ministers had approved around £20 million of additional project costs to complete all three vessels. However, “Full details of the contract addendums, ongoing activities and incurred costs following detailed review cannot be shared due to commercial sensitivities”.

Small Vessels Replacement Programme (SVRP): The Small Vessels Replacement Programme (SVRP) is a 10-year, two-stage project being led by CMAL to replace up to ten ageing vessels used by CalMac Ferries Ltd on Clyde and Hebrides routes. The first stage of the programme involves the construction of seven vessels, at an estimated cost of £175 million. CMAL launched the SVRP phase one competitive tendering exercise on 16 July 2024. On 23 October 2024, six bidders were invited to submit an invitation to tender.

The contract to build the SVRP phase one vessels was awarded to Remontowa Shipbuilding on 28 March 2025, with a total contract value of £147.5 million, with an additional 3% contingency fund. Construction for the first vessel began in September 2025. Delivery of the first vessel is expected in summer 2027, with all vessels due to be delivered by the end of Q1 2029.

CMAL launched phase 2 of the SVRP in August 2024, which will focus on procuring new vessels for the Berneray–Leverburgh (Harris) route currently operated by MV Loch Portain, and the Barra–Eriskay route currently operated by MV Loch Alain. CAL is also considering options to procure a new vessel for Mallaig-Armadale route and a replacement for the current relief vessel MV Loch Bhrusda. Both phases of the SVRP project also involve port improvement works. CMAL had planned to begin SVRP phase two procurement in Q2 2026 and appoint a shipyard in Q1 2027, with the vessels delivered in 2029 or 2030.

However, the Cabinet Secretary for Transport announced in the Chamber on 3 March 2026 that:

> “…ministers propose to include the two new vessels for the Sound of Harris and the Sound of Barra from the next phase of the small vessel replacement programme as a direct award to Ferguson Marine as part of a wider suite of publicly funded and directly awarded vessel projects. The proposal is subject to a detailed internal due diligence process that is under way to assess viability, including examination of structural organisation matters and subsidy control. Engagement with the Competition and Markets Authority would also be among the steps that are required before any formal contract award decisions can be made.”

It is worth noting that Scottish Ministers had previously taken a view that a direct award to Ferguson Marine as part of SVRP phase one was considered unlikely to comply with UK subsidy control legislation, e.g. in the answer to PQ S6W-37932, which states “Given no clear path to subsidy control compliance and the risks of legal challenge, Ministers concluded that directly awarding the Phase 1 contract would have been likely to lead to the worst of both worlds - a delay in adding new ferries to the network and the yard ultimately not securing any work from the programme."

Northern Isles Freight Flex vessels: CMAL launched a project in 2024 to replace the two existing freight vessels operating on the Aberdeen to Kirkwall/Lerwick route (Hellier and Hildasay) with ships that added freight capacity, reduced passage time, and potentially added some flexible passenger-carrying capacity. Procurement was launched in June 2025. The contract was awarded to Guangzhou Shipyard International Co., Limited (GSI) in March 2026 with an estimated total cost of £200 million and an expected delivery during 2029.

CMAL also have plans to procure a new vessel to replace the Lord of the Isles, which operates on the Mallaig-Lochboisdale route, which are at an early stage of development.

Bus, cycling, and walking budgets

The Scottish Government operate two "funds" that allow local authorities to develop active travel (walking, wheeling, and cycling) infrastructure, and bus infrastructure. These are:

- **Active travel infrastructure fund:** The Active Travel Infrastructure Fund has two 'tiers'. Tier 1 (previously known as the Walking, Cycling and safer Routes budget) provides ring-fenced funding for active travel projects directly to each local authority. 'Tier 2', a replacement for the previous 'places for everyone' funding allocated via Sustrans, allows local authorities to bid to Transport Scotland for project funding, which can be provided for "construction" or "design".

- **Bus Infrastructure Fund:** As with the active travel infrastructure fund, the Bus Infrastructure Fund has "tier 1" funding allocated directly to local authorities, and "tier 2" project funding for which authorities can bid to Transport Scotland.

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