OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit and Post-legislative Scrutiny Committee

Thursday 24 November 2016

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 24 November 2016

CONTENTS

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE
10th Meeting 2016, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Liam Kerr (North East Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Monica Lennon (Central Scotland) (Lab)
*Alex Neil (Airdrie and Shotts) (SNP)
*Gail Ross (Caithness, Sutherland and Ross) (SNP)
*Ross Thomson (North East Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Mike Baxter (Transport Scotland)
Angela Cullen (Audit Scotland)
Graeme Greenhill (Audit Scotland)
Fraser McKinlay (Audit Scotland)
Peter Reekie (Scottish Futures Trust)
Alyson Stafford (Scottish Government)
Shelagh Stewart (Audit Scotland)
Andrew Watson (Scottish Government)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit and Post-legislative Scrutiny Committee

Thursday 24 November 2016

[The Convener opened the meeting at 09:00]

Interests

The Convener (Jenny Marra): Good morning and welcome to the 10th meeting in session 5 of the Public Audit and Post-legislative Scrutiny Committee. I ask everyone present to switch off their electronic devices or switch them to silent so that they do not affect the committee's work.

We come to agenda item 1. I welcome Ross Thomson to the committee and invite him to declare any relevant interests.

Ross Thomson (North East Scotland) (Con): Thank you very much, convener. I am delighted to be here. I have an interest, in that I am a current councillor on Aberdeen City Council.

Deputy Convener

09:01

The Convener: We move on to agenda item 2. Alison Harris has resigned from the committee, and I am sure members will wish to join me in thanking her for her contribution. As Alison has left, we have a vacancy for the position of deputy convener, which the Parliament has agreed shall be filled by a member of the Conservative Party. I invite nominations from members of that party for the post of deputy convener.

Ross Thomson: I nominate Liam Kerr.

Liam Kerr was chosen as deputy convener.

The Convener: Welcome to your post, Liam.

Decision on Taking Business in Private

09:01

The Convener: Under agenda item 3, the committee is invited to agree to take items 7 to 9 in private, as set out in our agenda. Do members agree to take those items in private?

Members *indicated agreement.*

Major Capital Projects (Progress Update)

09:02

The Convener: Agenda item 4 is an evidence session on the Scottish Government's major capital projects progress update. I welcome from the Scottish Government Alyson Stafford, director general of finance, Andrew Watson, deputy director for financial strategy, and Christine McLaughlin, director of health finance. We also have Peter Reekie, deputy chief executive and director of investments with the Scottish Futures Trust, and Mike Baxter, director for finance and analytical services with Transport Scotland.

I invite Alyson Stafford and Peter Reekie to make brief opening comments before I open up to questions from members.

Alyson Stafford (Scottish Government): Good morning, and thank you very much for inviting me to attend to answer the committee's questions arising from our latest report on the Scottish Government's major capital projects, which is on the period to September 2016.

I have a number of colleagues with me. The convener has just introduced them, but I will say a little about how you can expect us to respond to your inquiries. I will look to Christine McLaughlin to help with any questions you might have in relation to health projects. Andrew Watson, who is on my left, and Peter Reekie, who is on my right, will answer questions relating to how reclassification by the Office for National Statistics has affected projects, although they might be able to assist with other areas. In particular, Peter Reekie will be able to say more about education projects and the overall non-profit distributing and hub programme. Mike Baxter, from Transport Scotland, will address issues regarding transport projects.

The committee may be interested to know that the current format of our reports was the product of tripartite consideration to arrive at a consistent tool to track progress. That was agreed between the former Public Audit Committee, the Scottish Government and Audit Scotland. That tool has stood us in good stead in preparing reports since March 2014. We reported before then, but it was good to get something that the committee and Audit Scotland felt was setting out the picture in a way that was helpful to all parties.

The reports give six-monthly updates each year on projects over £20 million. There is also an annual update on the local economic benefits of each project, which comes with the spring report. The six-monthly progress updates show what has changed in the cost and time parameters for each project that has progressed beyond the outline business stage. The updates also include individual hub model projects over £20 million, which are funded at least in part by the Scottish Government, as well as web links to the Scottish Futures Trust website, where information on progress by the hub territories that have been established is published.

To put the issue in context, it is fair to say that responsibility for individual capital projects and programmes remains with the relevant accountable officers—there is no dilution of that whatsoever—and those accountable officers will sit within Scottish Government portfolios and the procuring authorities. That could be Transport Scotland's chief executive, chief executives of national health service boards or local authority chief executives—you get the point, I am sure. Our task of gathering relevant information and reporting it to Parliament does not interfere with those underlying accountabilities, but it gives a good broad overview of infrastructure investment in Scotland. That said, we are happy to respond to any questions that you may have. If we do not have the answers immediately to hand because they are of a level of detail where we need to go back to the accountable officers, we will of course seek to do that and respond swiftly and in writing.

That is all that I wanted to say by way of introduction, but I will pass over to Peter Reekie, who would like to update the committee on something.

Peter Reekie (Scottish Futures Trust): Thank you, Alyson. I just want to declare, at the opening of the discussion, a non-financial interest as the public interest director, as part of the NPD programme, in Aberdeen Roads Ltd, which is the company delivering the Aberdeen western peripheral route and Balmedie to Tipperty project. I just wanted to make that clear to committee members.

The Convener: Thank you. Mr Baxter, do you have an opening statement as well?

Mike Baxter (Transport Scotland): No.

The Convener: Okay—we will move to questions.

Alex Neil (Airdrie and Shotts) (SNP): My questions are on the theme of yesterday's autumn statement, although I realise that some of them may not yet have been answered by the UK Government. First, do you know the profile of the additional £800 million of capital spend that has been promised over the next five years? Will it be front loaded in the first two or three years or is it £160 million per year, and when does it start?

Secondly, I noticed that the chancellor has created a national productivity investment fund of £23 billion and yet the consequentials are only £800 million. In normal times, we would expect that, if the chancellor creates a fund with new money of £23 billion, the consequentials would be more of the order of £2 billion rather than £800 million. Therefore, from your analysis, is most of that £23 billion just reshuffled money? If the consequentials are £800 million, how much of the national fund is new money as opposed to reshuffled money?

The third point arising from the autumn statement yesterday is that the chancellor is promising an increase in spending on infrastructure projects from 0.8 per cent of gross domestic product to over 1 per cent. What is the equivalent or comparator figure for the Scottish Government on infrastructure spend as a percentage of GDP? What impact will the additional £800 million have on that percentage figure for Scotland?

Alyson Stafford: Those are three really important questions. Given the position that you have previously been in, Mr Neil, you will appreciate that a lot of information comes out on the day of the statement and that really important information still trickles out for several days after. We can answer some of your questions in specific terms but, on others, we will need to inform the committee as and when the information is known.

To distinguish between the two types, we can answer today the question on the profile—I will ask Andrew Watson to go through that with you—but we are seeking further information on the national productivity fund. I agree with your initial headline analysis that the figure does not seem in line with the sort of proportions that would normally come to Scotland. The sort of thing that we will check is whether the fund is using guarantee-type mechanisms to help infrastructure investments. So that is still too new news to be able to say much more about how it will impact on us.

We will cover the profile issue first and then I will come back to the GDP question.

Andrew Watson (Scottish Government): We are still waiting for our formal settlement from the Treasury—that tends to follow a bit after each fiscal event—but the provisional breakdown of the consequentials is £125 million in 2017-18, £197 million in 2018-19, £239 million the year after and £257 million the year after that.

Alex Neil: So it is very much back loaded.

Alyson Stafford: Yes. That helps with the profile.

I do not have with me the exact percentage of our infrastructure investment in the round as a proportion of GDP. However, we know that construction and infrastructure investment in Scotland make an important contribution to GDP growth in Scotland. In 2015, total construction output contributed the equivalent of two thirds of total GDP growth, which includes the output of the public and private sectors, although the largest proportion in that year came from public sector investment. It is a valid question, because the issue is important for Scotland. We will get back with the answer to the specific question that you have asked.

Alex Neil: Good. I look forward to the additional information, because it is important for us to look at that.

I have two or three more questions, which are related more to the report than to yesterday's statement. The first one is about the significant implications of the Eurostat reclassification, via the ONS, for NPD projects. Again, it might be too early for you to answer this, given that Brexit negotiations are on-going between the Scottish Government and the UK Government but, once Brexit happens, will we be free of Eurostat classifications and reclassifications? Will we have more freedom to do what we want to do with our own money?

I move on to my second point. It would be helpful if you were able to add information in the progress reports on the amount of private sector investment being leveraged by public sector investment. For example, in housing, with the capital grant that is given to housing associations, every £1 that is invested by the Scottish Government generates on average about £2 for new housing developments. The hubs obviously leverage in additional money from external sources. In a lot of the work of the SFT, a lot of private sector investment is leveraged in by public sector investment. We maybe underestimate or even undervalue the impact of public sector investment, because, when we take into account the leverage, there is a very substantial impact on the economy. Where possible, it would be helpful to have that leverage figure in future reports.

My final point is very specific, and it is not a constituency interest; it is a national interest. I am a bit mesmerised by thinking about why only one relatively small or smallish part of the A9 project is in the list of projects. I presume that the target remains to complete the dualling of the A9 between Perth and Inverness by 2025. Therefore, can we get some kind of picture of how and when it will be funded between now and 2025? I assume that that commitment still stands. Similarly, the A96 is not mentioned at all. I know that some of the preparatory design work has started for the A96 dualling between Aberdeen and Inverness. The target date for that is 2030, but it would be helpful to get an update and perhaps a follow-up and more detailed plan from Mike Baxter at a later date. Can we have a general view on where we are with the A9 and the A96, because they are of strategic importance to Scotland and they are a big part of our long-term capital budget?

Alyson Stafford: Obviously, I will save the last one for Mike Baxter, but I am happy to respond to the other two.

You have been familiar with this space previously, Mr Neil, and I noticed that there was a smile on your face at the thought of being released from the grips of Eurostat and all that that brings.

Alex Neil: You are smiling, too, I notice.

09:15

Alyson Stafford: Well, I have had to moderate people's enthusiasm in this space, and for good reason, because Eurostat, whose translating into our local arrangements—obviously, I am casting the net much more broadly than Scotland when I say "local"—for how things are classified in relation to statistical national accounts, which happens at the UK level, is a product of something that comes from the United Nations. Eurostat translates into European requirements a United Nations international rigour on transparency of reporting of debt and deficits. That is where it all sits. The arrangements replicate an international expectation that any Government's figures can be held as an internationally recognised way of classifying such activities.

You will be starting to get a sense from what I am saying that the short answer to your question is that we will not be released from such requirements, because the international money markets that rely on such things will expect to see the same sort of rigours for any country that wants to borrow on the international money market stage. Given what we saw in the UK figures yesterday, that will need to continue for a while yet.

I am in touch with colleagues in the Treasury on what will follow. The issue will feature in a future work programme at some point, but we are already well connected with the Treasury and with the ONS so that we can understand what will need to follow on that. Whenever possible—there is a lot of interpretation around these things, as we have described—we will seek to exert influence to get the best possible architecture in place. That is the Eurostat question.

Secondly, in relation to the request for us to show additional information in the report, I would be happy to capture any other requests that the committee as a whole may have, and we will take those away, look to see what we can do and then come back and say what is sensible, in what timeframe, and what information we have available.

The point that you make is extremely important. Following the financial markets crash in 2008-09, our capital budgets were cut by 36 per cent. Some of that has been restored, but we are still not back in those heady pre-crash days of traditional capital spend. We have moved to using a myriad of ways of enabling infrastructure investment to happen here in Scotland. In that sense, we have a mixed economy; we are not just using traditional grants. As you said, there is the national housing trust, which is just one of a range of different models that we have used.

You are right—that gives us the means not just to spend taxpayers' money in making investment, but to leverage in other forms of investment from places such as the private sector. A declaration of benefits is already made through the SFT benefits statement, which is publicly available, but what you have suggested has really made me think. As I said, we will look at any other suggestions that are made by the committee and will come back to you on all of them in one go.

Alex Neil: I do not wish to interrupt, but the £500 million business guarantee scheme is also important, because it, too, is all about investment. I know that it is not technically a capital project, but it is a tool to incentivise and leverage business investment. Just as a matter of interest, when will that guarantee scheme be up and running?

Alyson Stafford: On the Scottish growth scheme that was announced as part of the programme for government at the beginning of September, you will appreciate that the First Minister was clear about the number of steps that needed to be gone through, working with the Treasury and consulting those companies that we want to be most able to access the scheme. The scheme also needs to go through due process with the Parliament's Finance and Constitution Committee. All of that is still being worked through. I do not have a specific date here, but obviously we can let you know.

Alex Neil: That would be helpful.

Mike Baxter: Good morning. I will pick up on the question about the A9 and the A96. In general terms, the aims are still to dual the A9 by 2025 and the A96 by 2030, and we are planning on that basis.

The progress report mentions the £35 million contract for the Kincraig to Dalraddy section, which is on site, progressing well and due to complete in the summer of 2017. We recently saw a switchover on to the new carriageway for the majority of that section, and work is now under way to upgrade the existing carriageway.

As far as the more general work on the A9 programme is concerned, a considerable amount of planning and development work is being undertaken on the remaining seven sections that need to be developed. We are focusing on a number of areas, the first of which is identifying an appropriate route, taking into account environmental impact, buildability and cost. Statutory and consultation processes will be undertaken on each of those as we progress.

In a wider sense, considerable effort is also being put into discussions on how we procure and how we fund the remaining sections and the options that are available to us. It is a long-term programme, and circumstances can change quite significantly from where we are now to 2025, so we need a cogent strategy to get us from A to B, and that is what we are currently working through.

The options that we are considering—whether to use public capital, revenue finance or a mix of both—are being explored at this point. The other aspect of the development work and planning work that is important here is to understand the impact of such a large programme of works on the market and to engage with the market on market capacity.

The A96 is a longer-term programme, and at the moment we are focused on statutory process, particularly around the Inverness to Nairn section at the western end of the route, but the same planning and route selection processes are being gone through.

As far as the approach that is being taken with the A9 is concerned, I would like to highlight that the headline numbers that are reported on both programmes are in the order of £3 billion. We have recently engaged a challenge group, which is made up of experts from within the industry, to challenge our assumptions about the nature of the dualling project and the junctions strategy, as well as the estimates that we got. We will be able to firm up on those estimates only once route selection has been identified across all seven sections, when we will be able to take the design to a further stage, but that work is in hand.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to continue exploring the ONS issue and the impact on projects. It seems to me that the ONS reclassification is resulting in the Government being forced into more expensive funding for projects. Is that correct?

Alyson Stafford: As regards whether we are being forced into more expensive funding, there is a realisation that, because of the change that has been brought about by the European system of accounts 2010 arrangements, there are certain projects that are having to be recognised as utilising public capacity of infrastructure investment very late in the day.

The classification change is signalling that in order for those projects, the original design of which was intended to get better value for money for the taxpayer, to still be giving us additionality and to be classified as private, which was the original plan, the Government would have to give up all the value-for-money aspects that it wanted to secure. If we were to do a before-and-after comparison, we would find that there would be less value for money in terms of what we were looking for.

If you would like more specific information, I can ask Peter Reekie to say a bit more about how the scheme design has changed to make that the case.

Colin Beattie: I think that you said yes in relation to projects costing more.

In that regard, what is the impact on the budget for the current projects in terms of additional cost and on the future capital budget?

Alyson Stafford: There is a distinction between what would happen with the cost of those individual projects and what the change means within the programme of activity as a whole. I make it clear that there is not a material change in the flows of funds that we committed to in those projects; it is a question of how we manage the whole programme.

In response to Mr Neil, I said that we have a mixed economy when it comes to how infrastructure investment takes place in Scotland. In response to the cuts in traditional capital funding, the NPD programme was designed to bring something additional so that Scotland did not feel the full pain of those cuts. It was an alternative that was brought in, but given that those projects are now classified as public, we have had to accommodate them within the capital programme. The period of time in which we are having to do that is time limited, because once the programme's construction phase has completed, that will be the point at which that encroachment into our capital programme will cease. There is a time limit on those areas.

As the committee knows from the scrutiny of the consolidated accounts only two weeks ago, we have found a way to mitigate the worst impacts on the rest of the programme. As we said when we were reviewing the 2015-16 accounts, the accommodation that we had to make for the different classification meant that we did not have to defer other projects at the time because we were able to utilise the release of contingency from the Forth replacement crossing. We were able to reprofile—without any loss of investment at all in the Scottish Water infrastructure—the loans that came from the Scottish Government, because Scottish Water had cash to utilise instead. A change in policy had already been made with regard to the prison estate, which meant that the money that was being set aside for a women's prison was no longer needed, and there were certain other areas in which the demand that we expected to come through did not materialise.

Therefore, I think that it is fair to say that the Government has taken a pragmatic, managed approach to the issue without causing any damage to other programmes of activity. I hope that that goes some way to answering your question.

Colin Beattie: Looking at the profile of the projects that are being put in place with the hubcos and the design, build, finance and maintain projects, the structure of the ownership looks incredibly complex. For example, 20 per cent of the special purpose vehicle will be owned by a private sector charity. How will that work?

Alyson Stafford: As you say, the model for such projects is complex, which is why we have experts who help us with that. They sit within the Scottish Futures Trust, so I will ask Peter Reekie to respond to your question about the make-up of the mechanism that you asked about.

Peter Reekie: I would say that there are many companies that have a diverse shareholding—that is quite a normal situation in a company. In the hub arrangement that we have moved to, the private sector partners who were procured at the outset of the programme hold 60 per cent of the shares in all the hub companies, and that has remained static as we have had to evolve the model. That private sector corporate shareholding remains the same and the board of the company reflects that shareholding, so the majority of members of the board of directors that controls the day-to-day activities are from that private partner.

We in the public sector retain an interest in and a directorship of those companies so that we can bring the transparency that comes through the evolved models of partnership that we have, which involve much closer representation on the board. SFT and the public sector procuring authorities hold that shareholding.

The Hub Community Foundation, which is a privately classified charity, is in place. It does not have an active role in the governance and the operation of the day-to-day company but is there to make sure that the benefits of shareholding—the eventual profits—are deployed for the public good, because the statutory remit of a charity is to do public good, as we all know. Whenever profits flow from that, the charity and the public good will benefit from those funds over time.

We have introduced the charity. As we have said in the past, that was a direct result of the change in the Eurostat rules, which required us to have a privately classified entity holding those shares. By making that a charitable entity, we are making sure that, while those funds are privately classified for statistical purposes, they will in the end go to the public good. I can appreciate that that introduces a bit of complexity—there is a new shareholder there and a new party to consider—but it was very much the best way of changing the structure to remain compliant with the evolving rules and at the same time making sure that the public benefit and the public good that are delivered over time remain as they were intended to be.

09:30

Colin Beattie: Can you just clarify that, with the charity, the benefits that are acquired locally go back to the local area? They do not go into a national pot and go off to some other area.

Peter Reekie: As has always been the case, some of the public sector shareholding is held by the Scottish Futures Trust. It holds that money centrally and reinvests it, or uses it for funding our own infrastructure investment work. The change is that the 20 per cent that was owned by the territory participants collectively—all the participants in the area—is now directed to the charity over the long term. It will be the job of the charity's trustees to decide over time how to deploy those funds, and they will be very mindful of both the overall geographic spread of projects and where the most good can be delivered for those returns.

Colin Beattie: So the benefits would not necessarily go back into the local community in which there had been investment in the project.

Peter Reekie: In terms of equity holding, there has never been a direct link between the profits of the equity investment, if and when they come over time, and the very local aspect. We know that the hub companies, as they deliver the projects, have separate community benefit obligations that are applied more directly to local communities in terms of jobs, the supply chain and the training and apprenticeship opportunities that they can give, but the long-term return on that public investment, if you like, has always been more diversified and spread across the country.

Colin Beattie: In a slightly different vein, do we get any support or investment from the European Union for our capital projects? When you travel around Europe or even Ireland, you see big signs that say "Funded by the European infrastructure fund" or whatever. Do we get that benefit from the EU?

Alyson Stafford: With a lot of the projects that use different innovative models, you find that there could be a whole mix of different funding contributors. A hospital project that has been using a mix of public and private financing streams can end up with nine or 10 different funding elements and, within that, funding often comes from the European Investment Bank, which is the European Union's vehicle for that sort of funding. There are examples of road projects where that has been the case, too. The European Investment Bank will continue to invest while we are members of the EU.

Colin Beattie: Do you have a figure for how much on average we receive?

Alyson Stafford: There will be a mix in terms of where investment sits in different areas. It would probably be better to write to the committee about that, so that we can capture that across the piece. Does Peter Reekie have that information?

Peter Reekie: In the NPD programme as a whole, there has been more than £650 million-worth of EIB investment. The EIB has been a contributor of good value-for-money financing to our major projects—the roads projects and the larger hospital projects. Of the around £1.8 billion of finance that has been raised to date, just over 30 per cent probably—around £650 million in all, as I said—has come from the European Investment Bank.

Liam Kerr (North East Scotland) (Con): I will stick with the AWPR. Has the ONS decision to reclassify it led to any delay in the likely completion time?

Mike Baxter: There has been no impact from the ONS decision with regard to the AWPR. The timing of the decision has not impacted on the delivery of that project.

Liam Kerr: Has the decision had an impact on other capital projects? One would have thought that there would be an attendant impact and that you would need to go back to other projects that are being delivered and look at them again.

Mike Baxter: There has been no impact on roads or transport projects. I will hand back to Alyson Stafford to answer the more general point.

Alyson Stafford: There has been no delay in terms of the NPD-based projects. There was a pause on the hub programme until it was really clear where things were going. We can say a little bit more about that pause if you would like.

Peter Reekie: There were 13 projects across the hub programme where there was some delay in the commencement of construction, as we had to rearrange the structure in the hub to retain the private classification. All those projects managed to reach financial close in the first quarter of this financial year, and the cost of the delay in inflationary terms was met and came well within programme contingencies.

Liam Kerr: That is where I was going: what is the cost, and has it been accounted for? Thank you very much for that response.

There is only one other thing that I wanted to explore. We have been told that the Scottish Government estimates that each additional £100 million of public sector capital spending supports approximately 800 full-time-equivalent Scottish jobs. I found that very interesting. How robust is that estimate?

Alyson Stafford: The estimate is calculated by economic and statistical colleagues in the Scottish Government. They will have applied a robust methodology to come to that figure. I do not have the detailed workings—as I said, other colleagues do that work—but I know that the estimate has its origins with the people who have that skill set within the Government.

Liam Kerr: I appreciate that you may not know the answer to my next question. Do you know whether that research breaks the estimate down—it is a very general figure—by sector, so that we can say that value really is delivered at this level, or—

Alyson Stafford: As you predicted, I do not have that level of detail.

Liam Kerr: In which case, we can move on.

The Convener: Okay. Monica Lennon is next.

Monica Lennon (Central Scotland) (Lab): Thank you, convener. Good morning.

I will pick up on and ask you to talk me through borrowing powers. I note from our briefing that the Government has the option of using its borrowing powers to finance capital investment, but that that did not happen in this financial year. Can you tell me why?

Alyson Stafford: Borrowing powers were set out for the first time in the Scotland Act 2012, and they will be enhanced under the Scotland Act 2016, which will enable us to make stronger and greater use of them.

In this financial year—2016-17—the Government's infrastructure investment plans work on the basis of our being able to use the full borrowing facility. However, we have not used that yet, for a very good reason: we will wait to know exactly how much money we need to borrow. Although we have planned to use it all, obviously no one wants to take on debt and have to start servicing that debt until they know absolutely what they need. There is always a degree of variability in delivering a capital programme—people are waiting for planning permission, identifying sites and so on—and it will be much closer to the end of the year before we borrow the balance that is required to fund our programme. You are right in one sense—we have not actually borrowed yet—but we are planning to borrow, and the final figure will be right and proper, taut and realistic, and in accordance with actual need at the point when we need to process it.

Monica Lennon: Do you expect to fully utilise that borrowing facility?

Alyson Stafford: Currently, our plan is to use it, but we will fine tune the exact number that we will borrow based on the financial picture at that point, which will be very close to the end of the financial year. The level of the facility that we can use is just over £300 million, and we are planning to use it, but we will know the exact amount much nearer the end of the financial year.

Monica Lennon: Okay. Is there a risk that you will not be able to identify projects in time to utilise the borrowing facility?

Alyson Stafford: The projects are already identified, and the plan is already set out for the year. We know the capital programme, and borrowing is just one source of funds. We have our traditional capital and, as we have already rehearsed, we have a whole range of other innovative financing techniques to support the underlying financing arrangements for our capital programme. We are certainly planning to use borrowing as one of the tools to finance the whole programme. As I said, it is not that we then have to wait to identify projects; it is just a matter of assessing what the actual amount of expenditure will be. We will then need to match that with traditional capital, other leverage of investments and finally borrowing. You will not be surprised to hear that we will leave the borrowing as the last place that we go to, because that has an associated additional cost. That is part of our methodology around that.

Monica Lennon: Okay. I will move on.

Can you explain why there was an underspend? Our briefing says that the Government announced that it would boost capital spending by £100 million in this financial year, and that that spending would be funded by the carry forward of an underspend. Can you say a bit more about that?

Alyson Stafford: Certainly. The underspend that was generated in the last financial year, which we talked about when we discussed the annual accounts two weeks ago, came from a range of different areas. The Government can never overspend its budget—it has to live within its budget—and with a multi-billion pound budget, a level of underspend always comes out. The underspend came from a mix of different places. From memory, about £40 million came from capital areas, and there was a mix across the different types of funding that the Government has.

The underspend was not lost to Scotland. Under the budget exchange arrangements that Scotland and the UK Treasury have, we were able to bring that money forward and reutilise £100 million for the capital acceleration package that was announced in August 2016. Basically, we are just making good use of money that was brought forward from the previous year and targeting it at a whole raft of projects, some of which are capital and new things, with roughly half going into maintenance activity.

Monica Lennon: Thank you. I was interested in the point that Liam Kerr raised about the link between the £100 million and what it can deliver in terms of jobs—I think that the figure was around 800 jobs. When I read in the papers about a £100 million underspend that could have facilitated and supported 800 jobs, I wonder whether that delay in fully utilising available budgets is a source of frustration for you and your colleagues.

Alyson Stafford: Do not get me wrong—I am absolutely passionate about our infrastructure investment, which underpins so much that is important in the economy in Scotland. There is always a very fine balance to be struck. We absolutely have to deliver a balanced plan for a budget, but we also have to actually achieve balance at the end of a financial year. Therefore, there will always be a modest level of underspend. I know that £100 million is an awfully large number with which to associate the word "modest", but, relative to our overall aggregate budget, our underspend was within 0.5 per cent, which is a really fine margin. There is therefore a judgment to be made about how much money is utilised right to the finish line. I am not just talking about 31 March, because our accounts have to stay open for any further liabilities that have to be recognised in the year—they stay open right up until they are signed, usually in September. There is a judgment about risk in relation to how much of the money is spent right up to the letter, and how much we then have to fulfil the non-negotiable obligation to live within the budget.

09:45

The good thing is that that £100 million was not lost to Scotland. It is there for this current financial year, and as early as 10 August it was being deployed on things that were very responsive to the circumstances that the Government and the country found themselves in, helping to create a further economic stimulus.

In deploying that £100 million, ministers exercised judgment in getting assurance about timing—when the impact of economic activity would be felt—and the extent to which the money would go to help employment. Ministers also looked at retaining the supply chain in the Scottish economy and considered the extent to which the money would leverage in additional economic activity in Scotland. The Government was also sensitive to the things that you would expect any government to be sensitive to in terms of geographic distribution and, importantly, the impact that the money would have on business confidence, which is very hard to measure.

Monica Lennon: I want to explore one more point, which I think you mentioned. You talked about other delays such as site constraints, identification of sites and planning delays. When I speak to industry stakeholders at events and meetings, quite often infrastructure is cited as a major barrier to making development happen. If we take housebuilding, there is a tension between house builders front loading and paying for roads and drainage upfront.

In the terms of reference for the Infrastructure Investment Board, it looks as though there is a fair bit of discretion in how you can take an overview across Government and other areas. To what extent are you looking at a range of different projects, and what barriers are faced at a more local level? I recognise that you are looking at major capital projects, but quite often the delays that you have mentioned happen more at a local level and perhaps they will not be picked up in the reports or the infrastructure investment plans. To what extent is Government joined up in looking at this in a cost-cutting way?

Alyson Stafford: We use a number of tools to try and make the process as streamlined and integrated as possible. Some of those things are very much at the hand of Government—for example, the national planning frameworks and things that give a sense of prioritisation and how the planning regime works in Scotland. It is also about how, where there can be both efficiencies and something that makes more sense for local communities, we can get that connectedness between different activities that are happening at the same time. In the Highlands and Islands, quite a bit of the work is about mobilising construction teams to work there and getting the right availability of people at the right time to work together, particularly when there are geographical challenges, too. Those are some of the things that we take into consideration.

Peter Reekie will respond on some of the things that feel more local. I appreciate that those are the things that you hear about from the constituency perspective.

Monica Lennon: Can I just add to that? Perhaps Peter could pick up on this point, too. I think we recognise that there is a shortage of skills in the construction world—is that on your radar, too?

Peter Reekie: I will start with part 1. I have exactly the same discussions as you do with people in industry—in the infrastructure industries, if you like, and in the construction and particularly house building industries. Part of the answer is that it is really tricky. First, for any one development that a developer wants to move ahead with very quickly, there will always be other developers who want to move their development ahead really quickly, too. Secondly, there is a range of infrastructures, from the private sector—the electricity and telephone connections—through to Scottish Water, transport and, for larger developments, schooling and health. Drawing all those together was a very strong recommendation in the planning review, and a lot of work is going on in the infrastructure leadership within the planning system to try to better co-ordinate the different infrastructure investments that are needed at a very local level to support individual developments.

However, it will always be the case that particular developers want to see the particular focus on their development. The planning system and any infrastructure investment need to look at the situation overall and at what is the best use of public funds, particularly in that investment, to deliver inclusive economic growth for the country as a whole.

I do not think that every developer will ever get the infrastructure to enable their development exactly when they want it. However, the planning review and the framework around that will lead to improvements in the co-ordination of the different infrastructure agencies to lead to a more infrastructure-led planning system.

Alyson Stafford: Mike Baxter has some examples as well.

Mike Baxter: I have two points to make. One, we have to recognise that it is not just about the new infrastructure; it is also about our existing transport networks. Recently, we have done work on the economic growth sectors, such as whisky and food and drink; we have looked at the reliance on our transport networks and started to target where we need to invest in order to improve productivity or reliability.

Secondly, a significant amount of investment is going in on our transport networks and there are some iconic projects. Those projects allow us to promote construction engineering as an industry for young people to go into. The A9 academy work that has been undertaken has been a major success; work has also been done around the Forth replacement crossing, in the education and contact centre and with local schools and communities.

We are looking at opportunities not just for community engagement more broadly, but for targeting and engaging with young people about the opportunities that exist. That is a long-term aspiration, but while we have the opportunity to undertake such major projects, it is important that we use them.

Gail Ross (Caithness, Sutherland and Ross) (SNP): Good morning and thank you for coming along.

My question touches on two points that Monica Lennon raised, one of which is about the underspend. We have saved money on the Forth replacement crossing, and that is a really good news story. Other projects, for whatever reason—often it is outwith our control—go over. With a hubco model, when the project comes to financial close, the cost is the cost. If a project goes over timescale, does it also go over budget and, if it does, who pays for that? Are penalties then put on the construction company? If it is not a hubco model—if it is purely funded by Scottish Government—how do we fund that continuing overspend and how do we fix that?

Alyson Stafford: There was a lot in there. Peter Reekie will start on the hubcos. Mike Baxter will respond on what happens in some of the contractual arrangements in the traditional areas.

Peter Reekie: There are a lot of different ways of contracting for construction activity and therefore a lot of different ways in which the risks of delay are allocated between the private sector construction company that is delivering the project and the public sector procurer of the project.

In general, if the projects that come through the hub programme take longer to build than the construction company promised, the additional costs fall straight to the construction contractor who promised to do that work within a set period of time. As you know, we pay for the buildings as we use them rather than as we build them and we start paying for them only when we actually get to use them.

However, additional costs and time might arise because the public sector procurer changes its requirements or evolves them during the construction phase. If that is the case, part of that body’s thinking on whether it wants to make those changes and whether they represent value for money will be its assessment of how much the changes will cost and whether they really need to be made, given the extra time that will be required to deliver them. In some cases, the body will make the assessment that that is worth doing.

Overall, in the hub, we very much deliver projects on time and on budget because of the strength of the incentive on the construction contractor to deliver on time. The cost of making changes and the rigorous development process that goes into the hub early development phase mean that, by the time that we sign the contract, the public sector procurer is pretty clear on exactly what it needs and is therefore very unlikely to require changes to be made during the construction phase. Occasionally there will be instances in which either the construction contractor overruns and has to take that into its own costs or the public sector procurer decides to make some changes and has to take on that cost. Overall, the programmes run pretty much to time and budget—certainly within 2 per cent overall.

The Convener: We are running a little bit short of time on this item. Please keep the questions and answers a bit more concise.

Mike Baxter: Certainly. The previous discussion was around the use of different funding techniques and borrowing, and tight financial control becomes more and more important at an operational level in order to give an overall picture nationally.

I would distinguish between the projects for which we have direct control—a lot of the roads projects, for example, on which we are responsible for direct capital funding or, indeed, for which we enter into design, build, finance, operate type structures—and the rail projects, for which the funding arrangements, through Network Rail, are different and there is an overall cap on the borrowing level over a five-year control period. The levers that we have to control those projects are different in each of those circumstances.

Given the independent EY report that was issued earlier in the autumn and published at the end of October, we are working through a series of actions to try and tighten up the control. For some transport projects there will be a direct financial consequence, and for others there will be an indirect and longer-term consequence depending on how much Network Rail has to borrow to fund projects.

Ross Thomson: I have three questions that follow on from Liam Kerr's question about the AWPR. My first question relates to the ONS statement and reclassification. As you know, the AWPR project is being done in partnership with Transport Scotland, Aberdeenshire Council and Aberdeen City Council; both councils have a commitment with the Scottish Government around the £75 million cap or the 9.5 per cent, whichever is lower. What impact would the ONS statement have on those contributions potentially? What is the risk around that?

Mike Baxter: The NPD element of that project is separate from the councils' contribution, so there is no direct financial impact.

Ross Thomson: I am sure that the heads of finance will be relieved to hear it. That is good.

Touching on what Liam Kerr mentioned, you said that there was no impact in timeline costs from the ONS decision. However, we had storm Frank last year, we have had a safety shutdown recently and just in October staff on the site were laid off. Where are we now with the timeline and costs?

Mike Baxter: We are where we expected to be on costs, and winter 2017 is still achievable for the overall programme. I think the slower rate of development in 2015 was offset by additional works in 2016 to catch up. I think that there are 10 million cubic metres of earthworks to be moved on the AWPR project, so it is no small undertaking.

Ross Thomson: This year a city region deal was signed off for Aberdeen. Above that, the Scottish Government committed £254 million for capital projects. The annexe to the paper says that there should be information on capital projects with a value of more than £20 million. As part of that city deal announcement, £24 million was meant to be allocated for the Laurencekirk flyover, with the cabinet secretary saying that he wanted to see that delivered as soon as possible for the north-east, and £200 million to increase capacity between Aberdeen and Montrose. I cannot see those projects mentioned in the annexe. Can you help me with that?

Mike Baxter: The budget that is allocated in the current year for Laurencekirk is £1.5 million. It will be 2019 before we go through statutory processes, so the reporting is simply a timing issue. I would expect that to be reported going forward.

10:00

Ross Thomson: When will the project start on the ground?

Mike Baxter: The minister was asked that question when he appeared at the Rural Economy and Connectivity Committee and clearly there are statutory processes to go through, so I defer to the earlier answer. However, we will progress it as best we can.

Ross Thomson: Thank you.

The Convener: Four primary school projects are listed on page 26; three are completed and one is still described as "Planned" and "In Preparation"—that is the Dundee joint campus. On page 56, there is a project under the heading

"South of the city, Dundee City Council" for which construction has now commenced. Is that the same project?

Peter Reekie: I would prefer to get back to you with a precise answer rather than looking through the documents in front of me and making a comparison, if that is all right.

The Convener: That would be great.

On the V&A at Dundee, under the heading “Progress at August 2016” the report says:

“aiming for completion and opening to public in 2018.”

Is that still the expected opening date?

Andrew Watson: Yes. The council is the procuring authority for that project, but I understand that that is what it aims to deliver.

The Convener: Thank you very much for your evidence.

10:01

Meeting suspended.

10:03

On resuming—

“Maintaining Scotland’s roads: A follow-up report”

The Convener: We move to item 5, which is our evidence session on “Maintaining Scotland’s Roads: A follow-up report”. I welcome to the meeting Fraser McKinlay, the director of performance audit and best value; Angela Cullen, the assistant director; Graeme Greenhill, senior manager; and Shelagh Stewart, audit manager, all from Audit Scotland. I invite Fraser McKinlay to make an opening statement before I open up the discussion to questions.

Fraser McKinlay (Audit Scotland): Thank you, convener. Good morning, members.

This report on maintaining Scotland’s roads is a joint report by the Auditor General and the Accounts Commission, so it covers both the Scottish Government’s responsibilities for maintaining the trunk road network and councils’ responsibilities for maintaining local roads. We have, over the years, reported quite regularly on Scotland’s roads. That partly reflects the important investment and the amount of money that is spent, but it also reflects the importance that local communities and the people of Scotland attach to the condition of roads. It is our fourth report since 2005, and it looks at three main issues. I will briefly summarise the key points.

The first part of the report looks at the condition of roads and the expenditure on them. It is fair to say that our previous reports on roads maintenance have painted a picture of roads authorities both locally and nationally having to work hard to maintain the condition of roads in the face of declining budgets. This report is exactly the same in that regard. We have found that the condition of trunk roads declined from 90 per cent being in acceptable condition in 2011-12 to 87 per cent being in acceptable condition in 2014-15. Most of that decline is associated with the condition of motorways. Over the same period, Transport Scotland’s expenditure on trunk roads maintenance fell from £168 million to £162 million. By its own assessment, it spent £24 million—that is 38 per cent—less on structural maintenance in 2014-15 than it considers necessary to maintain the trunk road condition at the current levels.

The condition of local roads remained stable, with around 63 per cent being in acceptable condition from 2011-12 to 2014-15, although there is significant variation among councils within the national picture. Total council expenditure on roads maintenance continued to decrease overall, from £302 million to £259 million—that is 14 per cent—over the same period. The Society of Chief Officers of Transportation in Scotland has calculated that, overall, councils spent £33 million—that is 13 per cent—less on planned and routine maintenance in 2014-15 than was necessary to maintain the current condition of local roads.

In terms of the management of roads maintenance, previous audit reports highlighted the need for all authorities to develop road asset management plans. We are pleased that all councils and Transport Scotland now have those in place, although we think they still lack detail in some places.

Although councils have now adopted a common set of performance indicators, the focus to date has mainly been on ensuring that that data is consistent. Transport Scotland has its own set of performance measures, because, owing to the different levels of service between trunk and local roads, it considers that many of the aspects of performance that it measures are not directly comparable with councils' performance indicators. It is quite a complex picture when you try to compare the local and national pictures.

The third part of the report talks about the developments in improving collaborative working. Our previous audit reports stressed the importance of developing a more collaborative approach to roads maintenance, and that was also an important recommendation from the national roads maintenance review, which was published back in 2012. The Auditor General and the Accounts Commission feel that progress in developing that more collaborative approach has been disappointingly slow. Although regional arrangements are now being established and facilitated through the roads collaboration programme, there is no clear plan or timetable for determining the extent of shared services at an operational level. There are examples out there that are mentioned in the report. The Ayrshire roads alliance and Tayside contracts have been around for quite a long time, and it is important that we learn the lessons from those. In relation to the trunk road network, we think that there is an opportunity for Transport Scotland to maximise the opportunities for more collaboration with councils through conditions in the trunk road operational contracts.

As always, my colleagues and I are very happy to answer the committee's questions.

The Convener: Thank you very much, Mr McKinlay.

Alex Neil: Am I right in saying that the reduction in budget and the reduction in the percentage of roads in satisfactory condition are broadly the same? If so, that would suggest that there have been no efficiency gains in terms of how we apply the money. Is that a fair proposition?

Fraser McKinlay: I will check with the team, Mr Neil, but I think the picture is slightly different depending on whether you are looking at local or national roads. The condition of the local roads has remained pretty stable over the past few years, although councils are spending about 14 per cent less over the period that we report on. In that sense, you could argue that they are managing to maintain the quality of the roads for less money. The picture is slightly different in the trunk road network. Graeme Greenhill will pick up on that.

Graeme Greenhill (Audit Scotland): I think that you are broadly correct in percentage terms. The condition of trunk roads declined from 90 per cent being in acceptable condition in 2011-12 to 87 per cent being in acceptable condition in 2014-15. Over the same period, expenditure on trunk roads maintenance fell by 4 per cent. In broad terms, those percentages are very similar.

I think it would be unfair to suggest that there were no efficiency savings over that period. One of the things that Transport Scotland does, as part of the efficient government initiative, is try to calculate efficiency savings through its renewal of its trunk road maintenance contracts. It has five trunk roads maintenance contracts, including the relatively new one for the Forth road bridge, but the four geographical ones are renewed on a rolling basis. Those contracts stipulate a series of unit costs associated with different types of road maintenance activities, and each contract contains hundreds—if not over a thousand—unit costs. As each contract is renewed, Transport Scotland looks at those unit costs and how they have changed over time, and it applies those unit costs to actual volumes of activity. On that basis, it calculates that efficiencies are being driven out from those contract renewal processes, which are resulting in lower unit costs over the piece.

Alex Neil: You draw attention to the increasing use of fairly temporary measures, particularly materials. Are we cutting off our nose to spite our face? You say in paragraph 4 of your summary and further on in your report, that much more regular maintenance activity is going to be needed. If you are using cheap materials and cutting corners, the road will not last as long and we might be cutting off our nose to spite our face.

Graeme Greenhill: There are certainly times when surface dressing, as it is called—basically just replacing the surface—represents value for money. However, there is a risk that, if that is done instead of more wholesale reconstruction, it is potentially storing problems for the future, and there might well be a higher bill in the longer term as a result.

It is fair to say that all the roads authorities recognise that as an issue and a risk, but there is clearly a difference between recognising a risk and doing something about it. A good example of that might be found in paragraph 70 on page 33 of the report, where we talk about Aberdeen City Council. Aberdeen City Council has been able to increase the proportion of roads in acceptable condition at lower cost through increased efficiencies and innovation, which we would be 100 per cent behind. Equally, it has taken a conscious decision to concentrate on surface dressing and not do more involved and more detailed reconstruction work. It is interesting that exhibit 10 on page 24 says that Aberdeen City Council has recognised that, if it wants to maintain its roads in the current condition, it will have to increase how much money it spends on roads maintenance.

For us, that emphasises the importance of having good-quality information to allow elected members and ministers to make informed decisions as to how much they want to spend on roads maintenance. That good-quality information would identify options; how much acceptable road condition might be expected from certain levels of spend; what might be the benefits of spending more than that level of spend; and what might be the consequences of spending less than that level of spend. Councils also need good-quality information on community engagement and user views, because all the surveyed work that councils and Transport Scotland carry out indicates that road condition is of vital importance to the general public.

10:15

Alex Neil: Not just in this period but previously, the overall performance of the local authority sector has been substantially below what has been expected. Sixty-three per cent of local authority-maintained roads are in acceptable condition compared to 87 per cent of Transport Scotland's trunk road network. I accept that there are challenges in the national network, but 63 per cent is a pretty pathetic figure for local authorities.

You suggest in your report that the lack of progress in collaborative work and shared services is concerning—I presume that is because of the economies of scale that you get through shared service provision. However, we have just had an experience in Ayr whereby the total lack of consultation has led to a massive waste of public money. They laid down a new cycle track and then had to lift it up again because, apart from anything else, it was dangerous. They did not consult anybody and they have now spent over £100,000 in laying the track and then lifting it, which is hardly a recommendation for collaboration. The total lack of consultation has cost the budget dear. Maybe that is a one-off, but it is certainly not a good advert for shared services.

Fraser McKinlay: Indeed, Mr Neil, and we are aware of that experience in Ayrshire. I guess that it is a good wee example of the point I was going to start with. Although we are absolutely clear that a more collaborative approach is the way to go, it is not a silver bullet—it is not going to fix the problem on its own. We would absolutely hope and expect that it would drive out some economies of scale, as you would expect. Whether it will actually release enough cash savings to do what we think needs to be done not just to maintain condition but to improve it, is a separate point.

What we are hearing—we agree with this—is that the real gain from more collaborative working is to do with skills and experience and sharing innovation and good practice. That is what a lot of the activity that the different alliances that are developing are now concentrating on. Yes, of course we should be pooling resources and making better use of depots and everything else. However, given that we think there is a risk of a skills and experience shortage in some of these areas, it seems to make absolute sense not to do that 32 times but to do that on a more regional level, sharing good practice and learning nationally and locally.

Alex Neil: Have you done any collaborative analysis of those areas where there is already established collaborative working and the rest, where there is not, to see whether there is any evidence that, where it has happened, collaborative working or sharing of services has made a material difference to the percentages?

Fraser McKinlay: We have not yet, partly because the collaborative arrangements are still relatively new, with the possible exception of the Tayside contracts. That is a slightly different model, because it does lots of other things.

The focus of our work recently has gone back to recommendations that we made in previous reports to get some momentum building, and we sense that there is now some momentum building around the regional approach. I am quite sure that the Auditor General and the Accounts Commission will want us to keep an eye on that area, and, in the next few years, that might be exactly the kind of work that we need to get into.

Alex Neil: Thank you.

Colin Beattie: There are one or two random items in the report that I want to get a bit more information on. We have touched on the contracts, and I am looking at paragraphs 27 to 28, in particular. You state that the contracts have actually contributed to the decline in performance, which seems extraordinary. Paragraph 28 says that the contracts

"may have played a part in the decline in performance."

Shelagh Stewart (Audit Scotland): Yes. In that paragraph, we draw attention to the shift to the 4G contracts. With the introduction of the new contract framework, the expectations around performance were raised. There may be a bit of time for the new operating companies that came in to start delivering at the level of the contract that is expected. Our overall concern is that the trend of performance has been downward. Therefore, we recommend that Transport Scotland should continue to keep an eye on the long-term trend and make sure that there are measures in place to address areas of underperformance.

Colin Beattie: Okay. One thing that really jumps out at me in the report relates to the performance of councils. Although they have maintained the level of roads in acceptable condition at 63 per cent, the variation between the councils seems quite extraordinary. Argyll and Bute Council is at the lower end of the scale and Orkney and Shetland, I think, are at the other end. Why is there that inconsistency of support? Some councils are clearly managing their resources better. As you highlight, there has been an overall cut of 14 per cent. How do the councils transfer experience, knowledge and best practice? That is not happening.

Fraser McKinlay: As you say, one of the striking things about the report is the variation between councils. We have not done a huge amount of in-depth analysis, council by council, to understand why that variation exists. There may be issues to do with things like the amount of road network that a council has—Argyll and Bute Council would be an example of that. However, equally interesting for us is the relationship between the condition of the roads and the amount of money that different councils spend on their roads maintenance. To some extent, that must be a matter of local decision making, but we are interested in the extent to which they need to make those decisions on the basis of good options appraisal and a good understanding of what the impact will be. That is a point that Graeme Greenhill made earlier in terms of the national stuff, but exactly the same point applies locally.

For example, we know that one council took a considered decision, because the condition of its roads was significantly higher than the national average. The council could have spent a bit less on that area, with a subsequent deterioration, but it still decided, given the competing pressures and priorities, that that was an acceptable decision to take. It is not for us as auditors to say whether that was a good or a bad decision, but at least the council made the decision on the basis of good information and an understanding of what the impact would be. There was a thought-through process.

There is no doubt that, given that we know that broadly two thirds of councils' spend is taken up with social work and education, there is real pressure on the pot for everything else including roads maintenance. As you say, that is why the regional models are so important. We think that that sharing of good practice, experience and skills must be the way forward, and we sense that, albeit slightly belatedly, councils are coming to that view as well.

Graeme Greenhill: Exhibit 2 on page 14 gives you that spread of council performance across individual councils. We are not necessarily saying that Argyll and Bute Council, on the left of the exhibit, is bad while Orkney Islands Council, on the right, is good; the exhibit is really designed to allow questions to be asked. Councils are well used to working in family groups and comparing themselves with similar councils, and the figures allow questions to be asked such as what one council is doing that another is not, which gives it better results. There might well be good reasons why some councils are down on the left and some of them are up on the right, as Fraser McKinlay outlined.

Mr Beattie also mentioned the idea of spreading good practice, innovation and views, and that is a strong theme coming out of the roads collaboration programme. Workforce resilience and capacity sharing is a major initiative that is being taking forward, which is all about sharing practice and knowledge and building resilience in the roads maintenance sector.

Colin Beattie: I see your comments in paragraph 99 on the question of trunk roads being included in the regional groupings. Do you feel that we are close to that, or is it still out there? It would make sense for the trunk roads to be in there.

Graeme Greenhill: I think that it is a work in progress. As you will have seen from the letter that Roy Brannen, the chief executive of Transport Scotland, wrote to the committee about the report, the minister has extended two of those trunk road operating contracts by a couple of years. We think that that has created a window of opportunity that will allow councils and Transport Scotland to get together and work closely to see what can be done to make the operating contracts more encompassing. Indeed, as part of the on-going roads collaboration programme, there is now an intention to form a working group comprised of local and trunk road representatives to see what can be done. There are already arrangements as part of the operating of the maintenance of the trunk roads, and you might find that the trunk road operators subcontract some of their work to the councils. We expect those discussions to take place over the next wee while, and we hope that they will result in further developments.

Colin Beattie: It is quite clear that there are a number of different models in place for maintaining roads, whether there is subcontracting or whether the councils are doing it themselves, and Transport Scotland is also involved. Is it feasible to bring all that work together effectively?

Graeme Greenhill: Do you mean to bring it all together into a single roads maintenance authority that would be responsible for all roads maintenance?

Colin Beattie: That would be wonderful.

Graeme Greenhill: Theoretically, it could be done, although there are obvious challenges associated with that. Paragraph 95 of the report, on page 41, gives an indication of some of the challenges that are being experienced even under the governance first arrangement. Local accountability is an issue, potentially, and there are concerns about the level of benefits that might arise. All of that has to be worked through.

Fraser McKinlay: For me, as much as a question of whether it is feasible, it is a question of whether that is who you would want to do the work. I would make some connection with developments more widely—things such as city and region deals. It is very clear now, particularly after some of the announcements this week, that that kind of regional model will be taken forward for a whole host of things to do with how services are delivered and how businesses and communities are engaged. I am sure that those on the collaboration programme will want to consider roads in that context as being a hugely important part of the thing that supports economic growth in those places.

Colin Beattie: I was quite intrigued by paragraphs 52 and 53, which show that we are probably marginally better than our colleagues south of the border. However, what really stood out is that they are spending two and a half times more per kilometre than Scottish councils on local roads maintenance. That is a huge difference. I know that you are limited in what you investigate, but do you have any feel as to why there is such a stark difference? Are we so much more efficient?

Fraser McKinlay: We have not done the work to let me say one way or the other, Mr Beattie. As far as we can tell, a policy choice was made. The Government at Westminster decided to invest pretty heavily in the road network, and you see the results coming through. As you say, there is then a whole separate question—which we have not got into; we have included the figures by way of a comparator or an indicator—about value for money, but we have not gone there for the purposes of this exercise.

Colin Beattie: Okay.

The Convener: I refer you to exhibit 5 on page 17, which is about the overall performance of trunk road operating companies. Please correct me if I am wrong, but looking at paragraph 28 and exhibit 5, is it correct that the operating companies are assessed not individually but as a whole? Does exhibit 5 show their performance?

10:30

Shelagh Stewart: Exhibit 5 shows the performance of all four of the regional operating companies, which are assessed individually in the annual PAGplus reports. However, they are not assessed on actual road condition, which is why we have made a recommendation in the report that part of their performance reporting should include condition. There is individual information on the four, but we have aggregated that up to show the trend over time, given that looking at trends over time was our concern.

The Convener: My copy is in black and white, but am I correct in thinking that each of the different shades—or colours—in the exhibit represents a different operating company?

Shelagh Stewart: No.

Graeme Greenhill: These are combined figures for all four operating companies.

The Convener: Okay. Where can you drill down to see the performance of each operating company?

Shelagh Stewart: We can supply the committee with that information.

The Convener: But it is not in the report.

Shelagh Stewart: It is not in the report.

The Convener: What are individual operating companies assessed on, if they are not assessed on the condition of the roads?

Shelagh Stewart: There is a range of different criteria to do with winter maintenance including response times to winter maintenance, other preventative measures and so on, and there are also indicators with regard to their structural maintenance programmes. Again, however, our view was that the assessment lacked the key criterion of road condition, and we could not actually get information on how all the work that operating companies were doing was impacting on road condition. That has been our focus and our recommendation in the report, but again, the PAGplus reports, which are publicly available, have information on all the set criteria. We can provide the committee with them.

The Convener: Are the companies assessed on financial performance?

Shelagh Stewart: Yes, there is some assessment of that.

The Convener: So I would need to refer to a different report to see the financial performance of each of the operating companies.

Shelagh Stewart: There are performance measures in that respect. We can provide that information.

The Convener: Will it have detail on financial performance?

Fraser McKinlay: We can double-check that, but we might need a better understanding of what exactly you are looking for when you talk about financial performance.

The Convener: I will explain why I am going down this road. You might have seen recent press reports of a performance audit group—a consortium of Transport Scotland—finding discrepancies in road-patching works in 54 per cent of the sites that it visited pertaining to BEAR Scotland's work. It also found clear evidence of BEAR site staff inaccurately recording what had been replaced when surfaces were relaid. Moreover, overcharging of Transport Scotland by BEAR Scotland amounted to £280,000. Does the audit cover that at all?

Fraser McKinlay: The audit does not specifically cover that issue, but we were aware of it. To some extent, you could argue that the performance audit group did its job by identifying some of those things in the first place. Transport Scotland has responded to that recommendation in its own response, and we would absolutely agree with you on the scope for more transparent public reporting of all of this. Indeed, that is why we have encouraged Transport Scotland to do some of that work, and it has, to some extent, responded to that in its response to the committee. If you really wanted to get underneath how exactly it manages the contracts and ensures that these matters are addressed in the amount of detail that Shelagh Stewart has already referred to, it will be better placed to provide that information for you.

The Convener: Do you mean Transport Scotland?

Fraser McKinlay: Yes.

The Convener: So it is not really within Audit Scotland's remit to dig that deep into contracts and look at what has been charged, what has been overcharged and so on.

Fraser McKinlay: It would be absolutely within our remit if someone were to raise a concern and we felt that that concern was significant enough for us to look at it. In this case, we as auditors would say that the internal control mechanism—the performance audit group—did its job in unearthing these things. What we are very interested in finding out—and what the committee might want to follow up with Transport Scotland—is how, as well as identifying this specific instance, it is sharing that learning and making sure that this sort of thing is not happening more widely.

The Convener: Is it correct that the PAG is an internal group of Transport Scotland?

Fraser McKinlay: The team will keep me right, but I think that it is a combination of internal and external people. It operates on behalf of Transport Scotland but I think that other external organisations are involved.

Shelagh Stewart: PricewaterhouseCoopers, for one.

The Convener: Even if external people were involved, the fact that the work was commissioned by Transport Scotland itself means that it is effectively asking for scrutiny of its own financial discrepancies—a case of Government scrutinising Government. Given that the group unearthed discrepancies of BEAR Scotland overcharging the Government—the taxpayer—by £280,000, I wonder whether a more independent review of the contractual and financial relationship between Transport Scotland and BEAR Scotland would be merited.

Fraser McKinlay: At the moment, I do not think so. First of all, it is a good thing that Transport Scotland has put such a mechanism in place. It is not that it was commissioned specifically for that thing; the mechanism looks at all contracts, and it is something that we would absolutely encourage. A follow-up is important because if there were examples or evidence of a more systematic problem it might well be worth taking a wider look at the issue.

The Convener: Indeed, because there were allegations with regard to exchange of money and things that were charged for that PAG did not even look into. Would that sort of thing fall under your remit, or would it stay with Transport Scotland?

Fraser McKinlay: I am not aware of that bit, but if there are some specific things that you want us to look into, convener, we can of course do that.

The Convener: I have a more general question about international comparators. How does the 63 per cent figure that a couple of my colleagues have already quoted compare with the rest of the UK and other similarly sized countries?

Graeme Greenhill: We have no comparative information beyond England. In that context, as has been previously mentioned, expenditure on roads maintenance is relatively higher than that in Scotland. However, the information that we have from the Department for Transport, which can be found in paragraph 52 on page 27, is that the condition of council-maintained roads in England is not too dissimilar to that in Scotland, although the condition of trunk roads is somewhat better in England than it is in Scotland.

As has been said, comparatively more money is being spent in England than in Scotland on road maintenance. There might well be very good reasons for that. Traffic density is an obvious potential factor, but as we have not audited road maintenance in England, we cannot really go too far beyond that in explaining the reasons for those cost differentials.

The Convener: So we do not really know how the state of our roads compares with that in other countries.

Fraser McKinlay: We have not done that as part of this piece of work. As I have said, if the Auditor General and the Accounts Commission ask us to come back to this issue, we can absolutely look at the international comparator data that is out there as part of that future work.

Graeme Greenhill: Paragraph 45 on page 23 of the report indicates that over the past couple of years Transport Scotland has undertaken a study on the long-term vision for maintaining the trunk road network, and one of the options that it considered was to increase the proportion of roads in acceptable condition up to a level comparable with the rest of the UK and further afield. The study indicated that Transport Scotland would need to increase its spending on trunk road structural maintenance to around about £79 million per year, which, as you will see from the following paragraph, was something like twice as much as Transport Scotland actually spent on structural maintenance in 2014-15.

The Convener: We underspend on our roads to get them to the standard of other countries.

Fraser McKinlay: Leaving comparisons with other countries to one side, I think what we have said and what councils and Transport Scotland themselves recognise is that we are not spending enough money every year to keep the roads even in their current state.

The Convener: The report notes that

> "the cost of materials forms the greatest proportion of spending associated with structural maintenance".

Did the audit consider how such costs could be reduced?

Fraser McKinlay: No, we did not look at that. I guess that what we were trying to do was to explain how that cost was made up and the bits that went together in that respect; we have not gone as far as to try to assess what might be different. One of the challenges for us with things such as roads is that the area is very technical and complex. Although we are the audit body that looks at these things, some of the technical stuff is a wee bit beyond our scope.

The Convener: Materials are often purchased when the market cost is low. In the work that you have done, have you seen any opportunity for materials to be bought at a certain time? Would announcements of road works and road projects or the fact that the trunk roads are managed by four separate companies preclude that sort of thing?

Graeme Greenhill: We did not look at the timing of purchases in detail, but the roads authorities are certainly aware of the potential benefits of shared procurement, which would help drive economies of scale efficiencies from purchasing materials and such like.

Fraser McKinlay: It is another strong argument for collaborating, both in terms of the purchasing power that you get and, as you have said, in terms of the ability to phase the purchasing of raw materials for projects that are happening over a wider scale. That seems to me something that should be looked at.

The Convener: Could Audit Scotland include money-saving measures or ideas in future reports on such matters?

Fraser McKinlay: Absolutely, and where we are able to do that in our work, we do it. For example, in our work on core efficiency, we identified about £10 million, I think, that could be saved in the system by doing various things.

However, we need to be careful of two things. First, it is important to make clear recommendations. Secondly, we also need to ensure that, in advising Government or councils about what they should do, we do not go too far. After all, it is their decision—and rightly so. Secondly, issues such as roads are very technical. Given the technical nature of some of this, we are not necessarily the best placed people to be making those kinds of specific recommendations.

The Convener: Who is best placed?

Fraser McKinlay: Well, the people who are in the business. That is why the roads collaboration programme and the various collaboration networks are so important. That is where the learning and expertise are.

The Convener: Going back to a previous point, I just wonder whether, if we already have evidence that one of those operating companies has already overcharged Transport Scotland and the Government to the tune of £280,000, it is realistic to look to them for cost-saving measures and opportunities to save the taxpayer money.

Fraser McKinlay: I think that they have to be the people who identify ways in which they operate more efficiently and effectively. You would expect that, in doing so, they would look beyond, say, the borders of Scotland and get expert advice from other places. As I have said, if we have any opportunity to identify ways in which they can save money, we will take them. However, I do not think that it is Audit Scotland's primary role to do that on this occasion and on this particular topic.

The Convener: Did your audit take into account road safety? I noticed in one paragraph that Perth and Kinross Council had projected savings as a result of cutting back on—that is the wrong expression; "reducing" would be better—the amount of grass verges that it cut back. However, as a driver, I know the impact that that has on road safety and visibility. Was there an assessment of the impact of the cuts on road safety?

10:45

Fraser McKinlay: Angela, do you want to take that one?

Angela Cullen (Audit Scotland): We did not look at the matter in great detail, but paragraphs 13 and 14 report the number of road traffic accidents that might be attributed to the condition of roads and also consider the issues of cyclists as well as motor vehicles. We considered those two areas, but we did not do so in huge detail. Obviously, users of roads are hugely important. We are suggesting to councils and Transport Scotland that they get more user views when they take into account all the evidence and make decisions around investment in roads.

The Convener: When you said that you had considered the condition of roads in terms of the impact on road users, are you talking about the condition of the surface or the other things that it is clear that Perth and Kinross Council is cutting back on, such as maintenance relating to signage, trees getting in the way of signage, grass growing higher than people and so on?

Angela Cullen: I do not think that we considered the issue in that level of detail. Graeme Greenhill might be able to tell you more.

Graeme Greenhill: One of the challenges with some of the survey work that councils and Transport Scotland undertake when they want to find out about what the users think of roads is that they tend to have different approaches. They ask different questions about different things, which leads to a lack of consistency in the information. In general, the questions are quite broad—they are about what people think of their roads as opposed to being about the more detailed issues that you mention.

Fraser McKinlay: We were looking at the most recent version of the performance management framework that Transport Scotland has produced, which includes some measures around user satisfaction and so on. However, you are absolutely right to suggest that part of the problem is that a lot of the data that is available is focused on the condition of the road surface even though road users—pedestrians, cyclists and drivers—know that there is a lot more to it than that.

I am not at all familiar with the Perth and Kinross Council example, but—

The Convener: I just pulled it from your report.

Fraser McKinlay: Okay, but we do not know enough about the detail of the example. I think that the reason we are mentioning it is that, like the Ayrshire example, it shows that community engagement is enormously important. It is clear that public perception of the conditions of roads is not great and that there is a need for roads authorities locally and nationally to engage with communities about the use of roads and everything that goes with that.

The Convener: Let me take you back briefly to the point about BEAR Scotland. I am concerned that what has happened here is that £280,000 worth of taxpayers' money has been overcharged by a private company operating our roads, but that Audit Scotland's remit does not enable it to pick that up. Can you comment on that? Where should that kind of financial discrepancy be picked up? It is the job of this committee to follow the public pound, and that public pound has gone astray to the tune of £280,000. Whose job is it to pick that up?

Fraser McKinlay: To be clear, I do not think that it has gone astray—I think that it was picked up. The mechanism that is in place through the performance audit group spotted the fact that there were overpayments to that amount and my understanding is that that money has now been repaid or was not claimed—

The Convener: But that happened only after concerns were raised and the matter was looked into.

Fraser McKinlay: There is a separate question about whether a separate and, as you say, more independent review of the system is required, but my understanding is that the system that we have in place around the contracts did its job in that it spotted those overpayments. However, clearly, we do not want such things to happen at all—as you say, we are talking about a lot of public money, and the issue is absolutely of concern to us.

I do not mean to give the impression that the issue is not within our remit, because it is within our remit to audit public money wherever it falls and however it is used. On this specific occasion, the internal control mechanism did its job in spotting the issue. If you want to discuss whether there is something more that we can do around the issue, I am happy to do so.

Graeme Greenhill: We should consider the fact that, when the allegations were made, Transport Scotland commissioned its own review. As Fraser McKinlay said, the result of that review was that PAGplus basically did its job and stopped that money being spent. That raises issues about how widespread the issue might have been. We do not know the answer to that, but there is a potential for us to look at how Transport Scotland has responded to that issue with BEAR and what kind of lessons it has learned. We can maybe pick that up through the annual financial audit of Transport Scotland.

The Convener: Please do that, because I am concerned about the possibility that practice such as this is more widespread.

In response to my first question, I think that Ms Stewart said that, in this audit, financial performance of these companies is not considered. If that is the case, I wonder how these issues can get picked up before allegations are made and Transport Scotland looks into them. However, I will leave the issue there just now.

Liam Kerr: I have a few questions at a more general level.

Mr Greenhill, you talked about funding and the condition of the roads. I appreciate that the report says that it is difficult to establish a correlation between funding and the state of the roads, but could you comment further on that, given that the evidence seems to imply that there is a correlation between less funding and declining condition and, as we saw in the England and Wales example, increased funding and better condition?

Graeme Greenhill: I will start off and perhaps others can come in. From a high-level overview, the kind of conclusion that you have drawn is understandable. The interesting thing is that, when you burrow down underneath the surface and look at individual councils, the picture becomes a lot more complicated. There is an exhibit on page 32 that indicates that some councils appear to have been able to get better road maintenance through spending less but it also shows completely the reverse of that, with other councils having seen the conditions of their roads declining despite spending more over the past four or five years.

We have not looked at the individual circumstances in every council, so I cannot provide definitive answers to explain why one has gone up and another has gone down, but there are interesting questions about how that has come about and we have advanced a series of reasons that might help to explain the situation. However, the issue really comes down to the need for councils to have good information and to be willing to actually talk to one another and explore such apparent differences in performance, so that they can understand what is causing them and perhaps learn from others who are doing things definitely.

Liam Kerr: Your report talks about the fact that councils are facing a 5 per cent reduction in grant. Is it correct to say that the individual council makes a decision about how to allocate its grant in relation to roads maintenance?

Graeme Greenhill: Yes.

Liam Kerr: In that case, would it be fair to say that a council that is facing a 5 per cent reduction has some difficult decisions to make and that, if there is a correlation between the amount that goes into road maintenance and the outcome, there is a contingent problem?

Fraser McKinlay: Yes, there is absolutely no doubt about that. To some extent, the same problem faces Transport Scotland when it makes similar kinds of investment decisions. We hope that the kind of information that we are talking about, particularly in terms of variation, will help councils make those kind of decisions.

As Graeme Greenhill said, there is no doubt that, at the top level, everyone recognises that we are just not spending enough money to maintain road condition nationally. That is one instance in which there is a connection between the funding and the road condition. However, as Graeme Greenhill went on to say, when you get down to the local authority level, the picture is much less clear. That suggests that some councils are doing things that should be shared more widely because they enable the roads to be looked after more efficiently and effectively.

Liam Kerr: You mentioned Transport Scotland. Presumably, the footprint of the road network is increasing—earlier, we were talking about dualling the A9 and the A96, which increases the footprint and therefore increases the amount that requires to be maintained. Logically, that requires an increase in funding, does it not?

Fraser McKinlay: That is one of the reasons why we were keen to push the idea of roads asset management plans, which enable a much longer-term view of the issues to be taken into account. You need to ensure that you are not just maintaining the road network as it sits today but are planning for the road network as it is going to look in five, 10 or 20 years' time. The Government will absolutely be factoring in the maintenance costs of that new road network as part of its work on capital infrastructure, which you discussed with Government officials earlier.

Liam Kerr: I appreciate that you might not want to, but I will ask you to speculate for a moment, because I am looking at this report and asking where this all ends up. We have more roads, a bigger footprint and apparently declining funding, and there is no reason to suspect that funding will massively increase any time soon. Are we just facing consistently declining performance?

Fraser McKinlay: I would not want to offer a counsel of despair. That is why this report, like earlier ones, focuses strongly on collaboration.

You are right that a number of things are certain to happen. Certainly, in the short to medium term, the money is going to continue to go down and tough decisions are going to have to be made locally and nationally about where that money is invested. With regard to how that process is managed, we have not really made much progress on collaboration, either in terms of economies of scale or in terms of sharing good practice and innovation. It seems to us that that is the only show in town if we are going to manage the competing pressures around roads maintenance. To be fair, I think that those in the services now understand that.

Ross Thomson: I have two quick questions. We have heard in answer to questions and seen in the report that councils' spending on roads must be balanced with competing priorities in education, health and social care, which are really big areas of spend. Some spending is not a matter of choice. Government requires councils to spend money on teacher numbers, nursery provision, free school meals and so on, which leaves little room for flexibility. When the council of which I am a member considers budgets, there are a raft of things that simply cannot be touched, and savings must be made in areas such as grass and roads—the other option being to increase charges on things.

In carrying out your work, was there any reflection on the statutory responsibilities that councils have?

Fraser McKinlay: Yes. We absolutely understand the issue. I do a lot of work in the local government sector, as we all do on behalf of the Accounts Commission. In fact, next Tuesday, we will publish a report on the financial position in local government across the piece. There is no doubt that there are areas of spend that are committed. As I said earlier, that reduces the amount of flexibility that councils have.

My only slight challenge in relation to council spend is that, when you look at what is actually statutory, there is still quite a lot of room for manoeuvre in how services are delivered. Education is a classic example. The statutory requirement is to deliver an education service, but there is no stipulation about how that is done. We need to be a wee bit cautious about saying that councils cannot touch social work and education spend, because there is still room for innovation and reform. That said, there is no doubt that a councillor who wants to protect the schools budget and the social care budget has a hard decision to make when they look at spending on roads, economic development, trading standards and so on. That is why the longer-term approach is important, because investment in those areas must be considered over a longer period than just what we can do next year.

Ross Thomson: Thank you. In relation to the point on innovation and looking again at council spend, did you see any correlation between innovation and the councils that receive the lowest grant, which almost forces them to collaborate more. I know that, in Aberdeen, which you highlighted as an example, there has been very little choice, given that it is the lowest-funded council in the country. Did you see any correlation between the level of grant funding and innovation?

11:00

Fraser McKinlay: The short answer is no. We have not looked at it but, from my wider work in local government, I know that there is very rarely that kind of obvious cause and effect. Some councils will be very good at innovation and reform in some areas, others will be very good at other things and, in my experience, there is not really a direct correlation between that and their level of funding.

Ross Thomson: Thank you.

The Convener: Do you audit Transport Scotland?

Fraser McKinlay: Yes.

The Convener: Are you able to take into account in that audit the financial performance of the operating companies?

Fraser McKinlay: Yes. As it happens, Graeme Greenhill is going to be the auditor for Transport Scotland from this year on, and he has suggested that we take that into the audit of Transport Scotland work.

The Convener: When can we expect the next audit of Transport Scotland?

Graeme Greenhill: The financial audit of Transport Scotland takes place on an annual basis. That will result in an annual report on that audit that will be published next summer, round about August, I suspect.

The Convener: And that will include an audit of the operating companies that manage the trunk roads.

Graeme Greenhill: We will need to scope that audit. I think that our focus would need to be on what Transport Scotland has done to look at the results of the review of the circumstances that give rise to the allegation that you are speaking about.

The Convener: I am concerned on a wider basis than just the specific allegation, because the four companies that manage our trunk roads in Scotland receive a significant amount of the public pound. Should it not just be the case that, when you do the audit of Transport Scotland, those companies are audited as well?

Graeme Greenhill: Well, we do not audit BEAR and Amey and the people who undertake—

The Convener: Or should their financial performance come under the scope of that audit of Transport Scotland?

Graeme Greenhill: We do not audit them, so their financial performance would not come within the scope of the audit of Transport Scotland. One of the things that we could look at is the performance of the operating companies, which is the subject of exhibit 5, to which we referred earlier. We could look at how Transport Scotland is monitoring the performance of the operating companies and what action it is taking if there are any further declines in the performance of the operating companies in the round.

The Convener: Okay.

Fraser McKinlay: If it is okay with you, convener, I would like to write to you separately on this point because, from our perspective, doing a significant audit of the performance of the operating companies sounds like a significant piece of work. As I am sure you understand, we would need to set that alongside all our other competing priorities and pressures, because there are lots of operating contracts in the public sector that we look after. Apart from anything else, I would need to have a conversation with the Auditor General about how we would go about that. What I have absolutely heard is the committee's concern about this area. We can look at some elements of that as part of this work. Also, the Auditor General and the Accounts Commission are currently looking at their forward work programme—as you know, we do a rolling five-year programme—so we can feed it into that discussion as well. We can write back to you specifically on where we get to on those occasions.

The Convener: Thank you very much.

11:03

Meeting suspended.

11:07

On resuming—

Section 23 Report

"Superfast broadband for Scotland: A progress update"

The Convener: Item 6 is our evidence session on "Superfast broadband for Scotland: A progress update". I welcome back Fraser McKinlay and his colleagues from Audit Scotland. I invite Fraser to make an opening statement.

Fraser McKinlay: Thank you, convener. I will be very brief on this one; obviously, you have the report. This is a follow-up—a progress update—on the report that the Auditor General did on broadband roll-out back in February 2015.

We have looked at three main areas. The first is the progress that has been made in rolling out superfast broadband across the two contracts that are managed by the Scottish Government and Highlands and Islands Enterprise. The second area that we touch on is the progress that the Government is making more widely on its ambition to have a world-class digital infrastructure and the response to the recommendations that we made back in 2015. Generally speaking, I think that the Government and HIE have responded well to those recommendations. We make some further recommendations and the committee has had a response from the relevant accountable officer in the Government about those.

We are planning to come back to this again, probably in 2018, to see what the final position is on the current contracts and, equally importantly, to do another update on the Government's progress towards achieving its ambition in terms of the 2020 and 2021 objectives.

Finally, this is a new look of report so, separately, if you have any feedback about how it works for you, we would be very pleased to take that.

The Convener: It is landscape.

Fraser McKinlay: It is, and it has got more pictures.

Gail Ross: I liked it very much. I thought that it was a lot easier to read. Thank you very much.

I think that we can all agree that Highlands and Islands Enterprise and the Scottish Government have made great progress with this. Certainly, as a member, I have had regular updates from HIE, so I thank it for that. Some of these answers will probably be covered in the conclusions, but I would like to explore them a wee bit further if I may.

My first question is whether the £156 million is money well spent.

Fraser McKinlay: That is a very good question. I think that there is every chance that—the response from Highlands and Islands Enterprise in particular is very strong on this—had this money not been spent by the public sector, remote and rural communities in Scotland just would not have got access to superfast broadband.

As I think the HIE response points out and as our previous report mentioned, there was very limited coverage in some parts of Scotland, where superfast broadband was just not going to be commercially viable. Given that, as we say, access to broadband is pretty much essential these days, in particular if you are running a business, in that sense it seems to me that it is important that Government stepped in to deliver broadband. The contract is being delivered well and on time and indeed is a bit ahead of where we expected it to be.

Graeme Greenhill: As Fraser McKinlay said, this is a follow-up report. Our original report said:

> "In 2012, the Scottish Government used consultants to calculate the impact of the investment in superfast broadband on the Scottish economy."

That work by consultants identified that public sector investment in broadband across Scotland would

> "benefit the economy by £1 billion with a further £2 billion economic benefit by 2028."

Gail Ross: In the key messages of the progress update, paragraph 2 refers to £23 million, which I think is the gain share from the higher-than-expected take-up, but paragraph 3 refers to an additional £42 million. Is that extra Scottish Government funding? I have looked through the report several times.

Graeme Greenhill: It is split: 50 per cent from the UK Government and 50 per cent from the Scottish Government. Outside of the current contracts, the Scottish Government is still to decide how the money is going to be used in the future.

Gail Ross: The report says that the take-up rate of 30 per cent is good, but if you had asked me whether I thought that 30 per cent was good, I am afraid that I would have said that maybe we could do a little bit better. What are the reasons for the 30 per cent rate? Is it a lack of knowledge? I know that people have come to me in the constituency saying that they were not aware that they had to change their package, as they had thought that they would just be automatically connected to it once the fibre went in. Is it a lack of need? Do people not need the speeds that we are providing for them, or are the packages too expensive?

Fraser McKinlay: You make the very important point that, at the end of the day, this is going to make the difference only if people have superfast broadband and use it, so the take-up rate is important. I think that the level of take-up is pretty much—or slightly ahead of—what people were expecting to have at this stage point. I think that Sarah Davidson's response to the committee talks about some of the promotional work that the Government, HIE and others, including BT, are doing to encourage take-up.

I will ask the team to say a wee bit more about what some of the issues are.

Graeme Greenhill: I am not sure I can add an awful lot. We have not looked specifically at why not everybody is buying into broadband. I think that some of the ideas that you suggested seem perfectly reasonable explanations as to why that is not happening. It certainly is an area of work that Highlands and Islands Enterprise in particular, working with BT, is trying to push. They are making a concerted effort to market the benefits of broadband and to try to increase that take-up rate.

Gail Ross: On page 7, the update says:

> "The areas that remain are more remote and likely to need more complicated and costly engineering."

Do you think that the Scottish Government knows exactly what that entails yet? In the following paragraph, it says that there is a £1,700 cap on each premise. Obviously, if the more costly engineering has to come in for us to roll superfast broadband out to 100 per cent of premises, we will have to think seriously about whether that cap appears in the next contract. Do you agree?

Fraser McKinlay: I will say a couple of things on that and then ask Graeme Greenhill to come in on the specifics. One of the key things that the Government needs to do—and is doing—is to look at what happens beyond the end of this contract. As the response and the report say, the Government will be moving into procurement early in 2017, so it is very important therefore to consider exactly those kinds of issues. Given that the final 5 per cent across the UK—this is not just a Scottish thing—was always going to be the most difficult 5 per cent to reach, it is almost certainly going to need a different kind of approach. We would expect the Government to consider things such as the cap, although it is fair to say that, although there has been a cap, the vast majority of premises have still been connected. There have been very few where the project has said, "No, we are not doing it," because it has decided to invest in making sure that people are connected. However, all of that stuff absolutely is wrapped up in the recommendation here that the Government should now consider how it can reach full roll-out and achieve its 2020 vision.

11:15

Graeme Greenhill: The only thing that I would add is that we should not forget the role of community broadband Scotland. Community broadband Scotland is there to nudge things along in areas where BT is not going to go as part of these contracts. They tend to be remote rural areas where there must be a good chance that the cost will be higher than the £1,700 cap that is in the BT contracts.

Gail Ross: On page 8, the report talks about the information that is given, because a lot of communities that do not have access to the superfast network are quite impatient—and rightly so—to know when that will be coming, if it will be available. If it will not be available, can they get an interim measure through community broadband Scotland such as access to satellite?

In the little box on the right-hand side of that page, there is a reference to information that is on the digital Scotland, Scottish Government and HIE websites; I find that ironic considering that a lot of communities will not have access to the internet and therefore will not be able to access the information that is on those websites. How are we getting that information out to people in other ways?

Fraser McKinlay: That is a very good question. One of the reasons why we made the recommendation about that last time, and indeed repeated it this time, is that we think that more progress needs to be made in the public reporting of performance. Specifically, if BT is not going to roll out broadband in a particular area, it is important for everybody to know that as early as possible, so that they can start making alternative arrangements. That is a message that was similarly made by the Culture, Media and Sport Committee at Westminster earlier in the year. In order for the likes of community broadband Scotland and other organisations to plug the gaps, they need to know where there are going to be gaps.

Your point about accessing information is a good one. We would encourage the Government and others always to think about different ways of getting those messages out there.

Gail Ross: On page 9, we see that HIE reports that there is a delay in receiving invoices from BT. Does that cause HIE any difficulties? It also says that BT is currently reviewing the financial model; could you say a bit more about what that means?

Graeme Greenhill: I am not aware of a delay necessarily causing HIE many difficulties. Clearly, if there is a delay in invoices being submitted, HIE will need to be careful in how it manages its available cash, just in case it spends in other areas and is then hit by an invoice that it was not expecting.

The point about BT currently reviewing the financial model is really all about the timing of the work and how it is intending to extend broadband coverage and what the likely cost of that is. Basically, BT needs to keep reviewing where it is with rolling out the project and what financial consequences are arising from that roll-out.

Fraser McKinlay: Very briefly, one of the reasons why we are keen to follow up in a couple of years' time is that we will want to get a final view at the end of the contract. In that sense, the invoices being submitted and paid is important, because we want to be able to report on the final picture. I notice in HIE's response to the committee that it says that it is continuing to work with BT to try to improve that process. It is a situation that existed when we reported last time and, apparently, there is a backlog that is being worked through. Certainly, when we come back to report, we will be very clear about the final position on the contract, by which time all that stuff should be resolved.

Gail Ross: I will just pick up on Graeme Greenhill's point about HIE having to delay spending in other areas because the money is being kept back. Is that a difficult—

Graeme Greenhill: I did not want to give the impression that that is what is happening. I was making the more general point that, if HIE knows that invoices are expected, it needs to be careful about budget and, accordingly, not spend money that it might not necessarily have if those invoices arrived.

Gail Ross: Thank you for that clarification. On page 10, you speak about the better broadband scheme. How is that being promoted, because I think that the take-up has been quite low at the moment? Going back to the point about communities maybe accessing satellite, how can we promote that scheme better?

Graeme Greenhill: The better broadband scheme is administered by the Department for Culture, Media and Sport, so we have not really looked at it as part of this exercise and cannot say why take-up has been so low so far.

Fraser McKinlay: We can take a look at that, though, if that would be helpful. The first question is whether people are aware that the scheme is available, which is a very important point. Secondly, there will then be a judgment for people about whether it is worth it, whether it is going to be significantly enough better and indeed when they might be getting the faster speeds coming down the road. We were equally interested in the fact that only 500 premises have applied and only 50 have taken up the offer. That seems very low and it may be that we can look at that as we move forward into the next piece of work.

Gail Ross: I have three final questions. The R100 programme is a Scottish Government commitment. Is it achievable, how does it fit into the commitment from the UK Government and how much is it going to cost?

Fraser McKinlay: It is difficult for me to give a concrete answer to any of those questions, unfortunately. One of the reasons why we were very keen to make the recommendation on that again in this report is that we are very keen to see more detailed plans for the 100 per cent roll-out and we will be looking closely at that as the procurement goes through in 2017 and the plans are then implemented. There is no doubt that it is an ambitious vision and that the Government has set itself a big task to do that.

As to how much it is going to cost, I really would not want to speculate. We will be interested in making sure that there are clear costings in place and that there is a clear budget. We have talked about the stuff that we know about, such as the additional £42 million. We are still not clear exactly how that is going to be spent, so I think that our first port of call will be to better understand the Government's plans for spending that money, and we will then expect to see it set out any additional investment that is required to deliver the vision further ahead.

Gail Ross: Thank you.

Liam Kerr: Because of the time constraints, I will just fire three questions at you, one after t'other. First, following on from the question that was just asked, when I am next out in the constituency—in the Angus glens or near Fraserburgh—and someone asks me, "Will I have superfast broadband by 2021?" do I tell them, "Yes," or, "Possibly"?

Fraser McKinlay: Are you pausing on that one?

Liam Kerr: I will pause on that and let you answer, because people are watching.

Fraser McKinlay: I am going to sound as if I am ducking the question, although I hope that I am not, but it depends what you mean by "superfast broadband". That is part of the question because, as we say in the report, to be fair to the Government and BT, there are lots of things affecting the speed that people receive in their homes that are not within the gift of the Government and BT, such as how far away someone is from the cabinet, the state of the wiring in their house and the kind of contract they are on. As far as we can tell, the commitment is pretty clear that there will be access on any device anywhere anytime by those dates. That is the commitment and that is what we will be measuring. That is why we have already said that we will want to come back in 2018, by which point I would hope to be in a position to answer your question better than I probably have just now.

Liam Kerr: Secondly, what does "world-class" relate to? We are talking about having "world-class" broadband. Does that refer to coverage or to the calibre of the delivery, and will it still be "world-class" in 2021?

Angela Cullen: That is another very good question. We have said in the report that the Government needs to be clear on its definition of "world-class". What does that mean for people in Scotland in terms of accessibility to broadband, coverage and speeds? That is not entirely clear to us, which is why we have recommended that the Government make it clearer.

Fraser McKinlay: Page 14 tries to set out the breadth of what is involved in world-class infrastructure. The definition is not just about broadband fibre; it is about all the other things that we mention in the exhibit on page 14. It is a multifaceted set of things that need to be in place, all of which will interact with one another.

Liam Kerr: The final question is just to put my mind at ease. On page 3, you talk about how the funding is put together and say:

> "The Scottish public sector as a whole is expected to contribute funding of £165 million. The balance will be provided by the UK Government, the EU and BT."

Is there any impact on that EU funding as a result of recent events?

Graeme Greenhill: The EU money is coming from the European regional development fund. It required to be spent by the end of 2015, so there should not be any impact. What money the projects were going to get from ERDF should be in by now and spent by now.

Liam Kerr: Thank you.

The Convener: My question is very short and it is related. We discovered in the consolidated accounts a couple of weeks ago that there is a £14 million shortfall in ERDF structural funds. On page 10 of this report, it says that the Scottish Government has used innovation fund money to make up a shortfall in the ERDF funding. Are those things related?

Graeme Greenhill: Again, I draw your attention to the previous report that we produced on broadband where that kind of issue is covered. When the Government was originally thinking about extending broadband, it identified potential ERDF funding of £20.5 million. At that time, it expected the EU to classify the project as revenue generating. The EU decided otherwise, which meant that the rate of grant dropped from 40 per cent of eligible expenditure to 25 per cent. Therefore, instead of expecting £20.5 million from the ERDF, the Government revised its calculations and ended up with a figure of £13 million. Innovation fund money is being directed to make up the difference between the ERDF calculations of £20.5 million and £13 million.

The Convener: This is a separate shortfall in ERDF funding from the one that we identified in the consolidated accounts?

Graeme Greenhill: Correct.

The Convener: Thank you very much. Thank you for your evidence today. We will now move into private session as previously agreed.

11:28

Meeting continued in private until 11:33.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba