

# **LOCAL GOVERNMENT AND TRANSPORT COMMITTEE**

Tuesday 7 October 2003  
*(Afternoon)*

Session 2

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## LOCAL GOVERNMENT AND TRANSPORT COMMITTEE

### 6<sup>th</sup> Meeting 2003, Session 2

#### CONVENER

\*Bristow Muldoon (Livingston) (Lab)

#### DEPUTY CONVENER

\*Mr Andrew Welsh (Angus) (SNP)

#### COMMITTEE MEMBERS

\*Dr Sylvia Jackson (Stirling) (Lab)

Rosie Kane (Glasgow) (SSP)

\*Mr Bruce McFee (West of Scotland) (SNP)

\*Michael McMahon (Hamilton North and Bellshill) (Lab)

\*Paul Martin (Glasgow Springburn) (Lab)

David Mundell (South of Scotland) (Con)

\*Iain Smith (North East Fife) (LD)

#### COMMITTEE SUBSTITUTES

Bill Butler (Glasgow Anniesland) (Lab)

Mr David Davidson (North East Scotland) (Con)

Colin Fox (Lothians) (SSP)

Mr Kenny MacAskill (Lothians) (SNP)

John Farquhar Munro (Ross, Skye and Inverness West) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Colin Cummins (Scottish Executive Finance and Central Services Department)

Dr Iain Docherty (University of Glasgow)

David Dow (Scottish Executive Finance and Central Services Department)

Mr Andy Kerr (Minister for Finance and Public Services)

Councillor Corrie McChord (Convention of Scottish Local Authorities)

Jonathan Pryce (Scottish Executive Development Department)

Christie Smith (Scottish Executive Finance and Central Services Department)

Nicol Stephen (Minister for Transport)

James Thoms on (Convention of Scottish Local Authorities)

Norie Williams on (Convention of Scottish Local Authorities)

#### CLERK TO THE COMMITTEE

Eugene Windsor

#### SENIOR ASSISTANT CLERK

Alastair Macfie

#### ASSISTANT CLERK

Euan Donald

#### LOCATION

Committee Room 1



## Scottish Parliament

### Local Government and Transport Committee

Tuesday 7 October 2003

(Afternoon)

[THE CONVENER opened the meeting at 13:55]

### Item in private

**The Convener (Bristow Muldoon):** I call to order the sixth meeting of the Local Government and Transport Committee in this session. The first thing that we have to consider is whether we wish to take item 5 in private. Item 5 will be a discussion of the outcome of evidence that we have taken as part of the budget process, so it will involve guidance to our advisers on areas that we want to cover in the report. Is it agreed that we consider that item in private?

**Members indicated agreement.**

**The Convener:** I have apologies from David Mundell, and both Michael McMahon and Iain Smith have said that they will need to leave during the meeting for other business. I think that Michael McMahon will have to leave at around 3 o'clock and Iain Smith just before half past 4.

## Subordinate Legislation

### Police Pensions (Scotland) Amendment Regulations 2003 (SSI 2003/406)

13:56

**The Convener:** There are four items of subordinate legislation, the first of which is the Police Pensions (Scotland) Amendment Regulations 2003. No motion to annul has been lodged and no members have raised any points with regard to the instrument. Is it agreed that we have nothing to report on it?

**Dr Sylvia Jackson (Stirling) (Lab):** I would like to raise a point about the instrument. The wording in the parent act appears to provide for questions to be referred to a single medical practitioner rather than to a board of medical practitioners. The Subordinate Legislation Committee asked for clarification on that and, as members can see, the Executive's answer is that questions could be referred either to a board or to an individual. That worried the Subordinate Legislation Committee somewhat because we thought that if there was a board there should be some provision for the resolution of a dispute if medical practitioners differed. There seems to be no such provision. Furthermore, the regulation makes provision for an appeal to be made to a tribunal on the decision of a medical practitioner, rather than a group. The Subordinate Legislation Committee thought that that represents an inconsistency, so I thought that I should bring it to this committee's attention.

My other point is about consolidation. This regulation and many others need to be consolidated; the Subordinate Legislation Committee thinks that it is about time that that happened. It is getting to the point where regulations are no longer clear, and the Subordinate Legislation Committee thinks that that is quite a big difficulty.

**The Convener:** Thank you—it is good to have the convener of the Subordinate Legislation Committee with us. I am sure that you will keep us on our toes in the years ahead.

**Dr Jackson:** Indeed I will.

**The Convener:** We shall note the points from the Subordinate Legislation Committee's report that Sylvia Jackson has drawn to our attention. Other than that, are we agreed that we have nothing to report on the instrument?

**Members indicated agreement.**

**Road Works (Inspection Fees) (Scotland)  
Regulations 2003 (SSI 2003/415)**

**The Convener:** Again, no members have made any comments on the regulations and no motion to annul has been lodged. Do members agree that we have nothing to report on the regulations?

**Members** *indicated agreement.*

**Road Works (Recovery of Costs)  
(Scotland) Regulations 2003 (SSI 2003/416)**

**The Convener:** The position is the same—no member has raised a problem with the regulations or lodged a motion to annul them. Do members agree that we have nothing to report on the regulations?

**Members** *indicated agreement.*

**Dr Jackson:** The Subordinate Legislation Committee made one or two points on the regulations, but they are fairly minor.

**The Convener:** Are you simply drawing that to our attention?

**Dr Jackson:** Yes.

**Road Works (Reinstatement) (Scotland)  
Amendment Regulations 2003  
(SSI 2003/417)**

**The Convener:** No member has raised issues about the regulations and no motion to annul has been lodged. However, I advise members that the Executive intends to produce new regulations because one or two issues of incorrect drafting—I think that that is the correct term—have been identified. One flaw was drawn to the Executive's attention by the Subordinate Legislation Committee and the Executive identified another potential flaw. My recommendation is that we do not report anything on the regulations, but that we allow them to proceed with the understanding that the Executive will soon produce alternative regulations.

**Iain Smith (North East Fife) (LD):** The previous Local Government Committee dealt with instruments that had to be sent back and forth. Where it is agreed that an instrument is defectively drafted, it seems to be madness that the defects cannot be corrected before final approval of the instrument, rather than producing a separate order. I hope that the Procedures Committee will take that matter on board.

**The Convener:** The problem is that, with instruments that are considered under the negative procedure, the committee can either take no action and so allow them to pass, or lodge a motion to annul them, which causes them to fall. Some instruments contain drafting errors that are

not sufficiently serious to affect the policy effect of the instrument. The situation might be unsatisfactory, but it is probably the best that we can do.

**Iain Smith:** I understand the procedure. I am suggesting that the Procedures Committee consider whether it is possible to amend the current rules so that drafting amendments to correct technical defects that do not affect the policy can be made when instruments go through the Parliament, rather than the Executive's producing new statutory instruments, which takes up additional drafting and committee time. The procedure of producing another statutory instrument to correct minor technical faults that are spotted by the Subordinate Legislation Committee and accepted by the Executive seems to be unnecessarily cumbersome.

**Dr Jackson:** I can offer a point of clarification. As Iain Smith says, there are issues about the fact that the Executive has to produce another instrument, but on certain occasions the Subordinate Legislation Committee clerks pick up such errors and changes are made before the instrument is considered. That happened this morning, which was good. We are trying our best to develop more informal discussion between the clerks and the drafting people at the Scottish Executive, but resources seem to be an issue.

**The Convener:** Do members agree that we have nothing to report on the regulations?

**Members** *indicated agreement.*

## Budget Process 2004-05

14:03

**The Convener:** We move to the consideration of the budget process for 2004-05. I welcome our first witness, Dr Iain Docherty, to the committee and thank him for agreeing to give evidence. As he gave evidence to the Transport and the Environment Committee, I am sure that he is aware of the process that we intend to follow. Before we move to questions, I invite him to make some introductory remarks on the budget and, perhaps, his background.

**Dr Iain Docherty (University of Glasgow):** First of all, I thank the committee for the invitation to come back and give evidence.

There appears to be a general consensus that, as far as prioritisation of the transport budget is concerned, the Executive is now moving in the right direction. I highlight as an example the outcome of the central Scotland corridor studies; that outcome has not had much attention in the media or the professional press. The Executive's response to that document is one of the best and most considered responses to a transport policy appraisal that we have seen in a long time. I fully support the general position that public transport should have priority in spending and that a sensible level of new road building will be essential in the short, medium and long term. The Executive has done very well to adopt that position.

However, I have two caveats. First, we should be very wary of the experience in England. The Office of the Deputy Prime Minister and the Department for Transport, Local Government and the Regions had the same aspirations as we have in Scotland when they started out on their 20 or more multimodal studies on the regions of England. However, the process in England is further down the line and the Government has not maintained the spirit of treating the regional package appraisal as a package of roads building and public transport spending. My greatest fear is that, for various structural reasons, the Executive might be forced to make the same decision in Scotland. Because road projects are managed from conception to completion by the public sector and the Executive, they are easier to deliver. As a result, I am worried that we will follow the English example of cherry picking roads projects from those large-scale studies while improvements to the public transport system are lost.

Consensus is developing over concern about the lack of control over the railways in Scotland. I fully understand that we have to take into account a whole range of political issues to do with

whether control over the rail infrastructure should be devolved to the Scottish Parliament; however, I want to lay those to one side. My position on the matter is on the record and I know that members around the table will express a range of opinions.

That said, I want to reflect on recent experience. The Executive has very ambitious plans for rail spending and improvements to public transport in Scotland. Indeed, I am sure that we could all name various projects such as rail links with Glasgow and Edinburgh airports, the Waverley line and so on. However, Network Rail might decide to cut the maintenance budget for the railways in Scotland by several hundred million pounds; and there will be no point in the Scottish Executive pursuing its current railway expansion aspirations and programme if the network's basic engineering standards and performance worsen and do not come under the control of Scottish ministers.

If the Executive cannot exert sufficient control of the general management of the Scottish rail network—as seen, for example, in Network Rail's decision to downgrade maintenance of the Strathclyde commuter network, which is the largest in the UK outside London—it makes very little sense to spend significant sums on new infrastructure developments when the core network is under such a threat. The Executive and Parliament will have to deal with that considerable problem in the medium term if they are to meet the aspirations that have been expressed in recent documents.

**The Convener:** You have drawn attention to several key issues of which we are all aware, such as how to examine the Executive's progress in its transport policy. I am sure that members will probe a number of those areas a little further. Bruce McFee will open the questioning. I think that Iain Docherty might have already addressed part of Bruce's question, but he might want to expand things a little more.

**Mr Bruce McFee (West of Scotland) (SNP):** I thank Iain Docherty for his opening comments. What are the major priorities for public expenditure on transport in Scotland? You touched on an issue that is not entirely within the Parliament's control, but what other potential reforms would merit further investigation with a view to addressing Scotland's long-term public transport needs?

**Dr Docherty:** The short to medium-term priorities are now well established. Indeed, I can certainly trace a number of studies that have examined that issue over the 10 or 15 years that I have been involved with such matters.

As far as the major infrastructure projects are concerned, we know that we need the central Scotland motorway network to be completed, which would eliminate key bottlenecks.

Notwithstanding my earlier comments, we also need significant additions to the rail network, such as rail links to Glasgow and Edinburgh airports and some kind of cross-city link across Glasgow. That work would probably entail a 10-year programme, and it is expected that there will be much consensus over which projects should be completed in the medium term. That touches on issues of prioritisation, which we might return to in discussing the role of the proposed strategic transport authority—it is important that we cover that. The medium-term programme is fairly well established. The priorities are set, we know what the projects are, there is consensus that they should be delivered and the Executive is committed to delivery, which is to be welcomed.

As far as the longer term is concerned, we cannot avoid the issue of road pricing. We all know that Scotland is behind United Kingdom trends for levels of car ownership and use, and we understand the difficult local and national political issues surrounding charging for use of road space. However, even if the Executive were to deliver its most ambitious plans, there is in the long term no alternative to facing the key question of whether to charge for use of road space in the future. For wider Scotland, that could still be 10, 15 or even 20 years ahead, but there would be benefits in considering the issue and making the investment decisions now.

The way that we prioritise projects and assess them through the Scottish transport appraisal guidance or any other systems will be materially affected by whether they will exist as paid-for infrastructure in the future. For example, a decision to build a motorway over the next five to 10 years will necessarily be different if we think that, in 10 years' time, we will be charging for use of that road space. The Executive and all parties have to start looking towards what is a very difficult political issue in the longer term.

There is a developing consensus that some kind of charging for road space is inevitable at some point, but the argument now seems to be about when that point will be reached. We could have a debate about that but, if we come to realise that some form of charging is likely to become necessary, we will have to consider how we will change and how we appraise projects at the moment. That is the crucial issue for the committee, Parliament and the Executive to deal with over the next few years.

**The Convener:** You mentioned the proposed strategic transport authority. It might be useful to hear your views on what role you think that agency might play in enhancing the Executive's ability to deliver on major projects. In particular, how do you see the agency's role in relation to rail, given your

concerns about the Executive's ability to deliver in that area?

**Iain Docherty:** I would like to be generous and charitable about the Executive's objectives in the matter, but I have to be honest. It is hard to see why the current proposed strategic transport authority would be credible, given the fact that the system of transport governance is so piecemeal and ad hoc.

We have never recovered from local government reorganisation, particularly in Strathclyde, where the Strathclyde Passenger Transport Executive has really lost its momentum in developing public transport mechanisms. I think that there is consensus about that, which can be illustrated by how difficult it has become to deliver relatively minor schemes, for example the Milngavie to Larkhall project. Some of that loss of momentum has been due to rail privatisation and some to local government reorganisation. In the east, the politics of the proposed tram system for Edinburgh and the possible means of financing it through road charging would have looked very different if Lothian Regional Council had survived. I do not think that the level of competition and animosity between the local councils that exists now, and which underlies the debate, would have developed if the reorganisation had not taken place. That competition and animosity is wholly negative.

We still have the system at the bottom: the SPT exists, but its relevance is less clear than it once was. We have a variety of voluntary transport partnerships in other areas of the country, including Strathclyde, but they are at different stages of development and have not delivered very much. We are now almost eight years down the track from local government reorganisation. We will soon have to ask whether the current system is working at all and whether we should seek to engage in a more radical reshaping of it. The Executive's consultation document hints at that, and it is open in asking a lot of questions about how people think such a radical change should happen.

However, I am left with the thought that the Executive consulted on exactly the same issue three years ago and ruled out a whole range of options that are now being consulted on. For example, the consultation asks whether there should be regional statutory bodies to run transport, and it asks what the relationship between local organisations and central Government should be. It is not clear to me what has changed in the Executive's thinking over the past three years because the consultation document does not tell us.

We need more information about the role that the Executive envisages for transport Scotland—

the new agency. Will the establishment of the agency involve simply a repackaging of powers that are already available between central Government and local authorities? There might be efficiency savings or gains from focusing an organisation on delivering projects, but that is ambitious. It is not entirely obvious what reorganisation of existing competencies will bring to the table.

I support the idea of a national agency—the model has worked well elsewhere—but it is not clear whether such an agency would have the powers that it requires in order to deliver. It could be very useful if it were to get control of the trunk road network, if we were to consider charging differently for the network's use and if we were to invest in a new expanded and upgraded road infrastructure. The agency could take over that new train of thought. However, unless the agency and Scottish ministers have power over day-to-day maintenance of the rail network—which Scottish ministers do not have at the moment—they will find it very difficult to deliver what I have said are laudable objectives.

14:15

**Mr McFee:** My question was mainly about long-term objectives, but I want to press you on one medium-term objective. Would you like to comment on the possibility of the Glasgow airport rail link's going ahead without the crosslink in Glasgow? For those of us who live in the area, the crosslink is potentially more important than the airport rail link. It is hard to see what reduction in traffic to Glasgow airport there will be without the vital link in the centre of Glasgow.

**Dr Docherty:** That is a very interesting question that raises a number of issues—I will try to deal with them in turn. The Glasgow airport rail link—and even the cross-city link, in whatever form it is eventually delivered—will make no discernible impact on traffic. We know that if we want to reduce the amount of traffic on the roads there are much more effective methods of doing that than to build new railways; the experience in London over the past six months should have taught us that those methods tend to work.

If we want to reduce the amount of traffic on the roads, we must make the very difficult decision to reduce the amount of available road space and the potential for people to travel around. In some local circumstances a solution is to build more roads—there are places in Scotland where that would be welcome. The M74 extension is one such project that will have an impact on traffic to Glasgow airport. However, more generally we must remain convinced that the notion of predict and provide—expanding the availability of transport to the point at which all demand can be accommodated—is unrealistic.

I share Mr McFee's concerns about the proposed Glasgow airport rail link project. It is not clear whether the project will justify itself through economic, social, environmental or other benefits. There is a long history of appraisals of potential schemes for the Glasgow airport rail link. Stephen Lockley will be well aware of that and of how perceptions have changed of what the link should look like, where it should link into and where connections should be.

The wider issue is that we are still not very good at viewing central Scotland as a functioning economic unit. We have a very large rail network based on the city of Glasgow, whose economy is performing well, especially in Scottish terms. The economy of the Edinburgh region is performing as well as, or better than, that of Glasgow. We want to link together those two success stories as well as we can, but transport policy does not yet seem to have acknowledged the need for that, beyond trying to fix the gap in the M8. We need to take a much more holistic view of what the rail network in the central belt should look like. If we do that, the issue of the quality of the link across Glasgow becomes at once very apparent and very important. We could discuss whether the proposed surface link is the right option: it is certainly the cheapest and may offer the best value for money in the short term. However, I am not sure that it is the right option in the long term.

**Michael McMahon (Hamilton North and Bellshill) (Lab):** I want to pursue some of the points that you made in your opening remarks about objectives and priorities. You were fairly upbeat about the Executive's having identified good priorities and objectives, but how far away is it from achieving those objectives? Do the current budget commitments come anywhere near what is required?

**Dr Docherty:** The short answer to that question is no. For decades we have suffered from underinvestment in infrastructure, partly because as a society and range of professions we are not very good at evaluating how important infrastructure investment is. We spend a lot of time on appraisal networks, which are terribly precise and tell us a lot of detailed information about the questions that we ask, but we still do not really understand terribly well the role of transport infrastructure in services in the wider economy.

If we look at some of the decisions that are made in Europe and at the way in which other Governments choose to invest their money in transport, we see that they do not do it in the same way that we do it. They have a different range of priorities and a different range of economic, social and environmental rules about how they appraise projects. On the whole, they tend to make a better job of it than we do.

The lesson from that is that we have become very efficient in how we spend money—we have limited resources, but we tend to spend them very well. However, the time has now come when we really need to increase the amount of money that we spend, because the structures that we have are not sufficient to deliver the level of economic growth that we require. The Executive's aspirations as contained in the budget are laudable, but they are simply not enough because we have had decades of underinvestment.

The Commission for Integrated Transport has studied and reported on the proportion of gross domestic product that countries throughout Europe spend on transport infrastructure, and on that spending's impact on the economy. If we are to catch up, we probably need to double our expenditure for 20 or 30 years. We need an incredible step change in the level of investment and we are clearly not going to achieve that in the short term. The committee and interests within the Executive and Parliament will have to make a strong case for increasing investment in transport infrastructure as part of the overall budget. The investment that is outlined in the documents that are before us goes some way towards that, but it needs to be developed.

**Michael McMahon:** Are you satisfied that the performance indicators that allow the Executive to determine what is required will provide the information that will allow the Executive to allocate investment where it is needed? You mentioned corridor studies and multimodal studies. My constituency contains the M74, the M8, Raith interchange, the Bellshill bypass and the Shawhead interchange. I do not believe that there is connectivity between those who use and require that road network and the eventual outcomes of the multimodal study. Do you have any comments on that?

**Dr Docherty:** An interesting question is whether congestion is the right target to measure. The orthodoxy is that congestion is a bad thing, but that might not always be the case. If the choice of transport investments that we make serves only to encourage people to move further out of the main centres of economic activity and to commute further, that is not a healthy situation. One criticism of the central Scotland transport studies could be that, although they swung the pendulum quite strongly towards public transport compared with previous investments, the new investments were still focused on relatively long-distance commuting. Over the past 50 years, the history of investment in Scotland's transport network has been about inter-urban links and long-distance commuting possibilities. We have not been very good at enhancing links inside the major cities and urban areas.

An outcome of that is that we now have congestion that is largely caused by people commuting in a North American style; we have developed a settlement pattern that we might not have had if we had made different decisions in the past. We have to ask ourselves, "Do we still want to do this?" Under our current appraisal systems, one could probably quite easily justify widening the M8 to a dual four-lane motorway along its whole length because that would provide all kinds of new commuting possibilities. Under the current economic appraisals, that would show up very positively, because it would enable people to make lots of relatively high-value journeys such as they do not make at the moment. The question is whether there is any point in that. Do people use those opportunities just because they arise? If we chose to do different things, such as improve public transport inside the cities rather than widen the roads, would we find that people travelled less even though the economy was doing just as well? I tend to think that the answer is yes.

The Executive was brave in its response to the central Scotland transport corridors studies. It said specifically that, on corridors such as the M8 and the M80, there are a range of schemes that it could pursue but that it had decided, as a minimum standard, to complete the motorway network, and that it would not expand the capacity of the road network simply to enable more long-distance commuting. That could be a very unpopular policy with the public, but it is a brave one and I think that it is correct. The Executive should be congratulated on making that decision. If we are to regenerate central Scotland, we must ensure that we do not repeat our previous mistakes in deconcentrating the economy and moving everything out into Lanarkshire and West Lothian.

We would end up with more congestion because of the complex pattern of trips that would be created. Instead of the pattern's being dominated by radial movement in and out of the cities as people commute and make business journeys, it would become more and more complex because, to put it bluntly, people would travel all over the place. No transport network can properly accommodate that. We need only consider major North American cities that have followed that line to see that no matter how much money is spent on the road network, it is never sufficient. The Executive has made a brave choice not to do that. I understand why that might be difficult to sell in communities where the local opportunities for enhanced commuting and so on would be improved by new road construction, but when you look at the broader picture you can see that the Executive has made a wise choice.

**Michael McMahon:** I have one small question. I agree with much of what you said, but the biggest

issue that remains, in particular for people in my constituency, is the lack of a commitment to upgrade the Caledonian line—the Glasgow-Shotts-Edinburgh line—which runs parallel to the M8. A glaring omission in the multimodal studies is that although they say that we should put more investment into roads, they do nothing about upgrading that major artery from central Lanarkshire through Lothian to Edinburgh.

**Dr Docherty:** I agree entirely. Another criticism of the multimodal studies could be that a few of the public transport projects in them came out of left-field and were somewhat bizarre. They were not ones that had a track record of being developed by any agency. The proposals for the Cumbernauld corridor come to mind. That project requires very expensive electrification and new stations and largely has no history of development or appraisal, although it makes sense in the context of the overall corridor studies.

That comes back to my original point that pre-1996, before rail privatisation and local government reorganisation, delivering something such as the upgrade and electrification of the remaining 13 miles of the Shotts line would have been relatively simple. The capital resources that are available to the Parliament now are quite generous in comparison with what was available then and I think that, if there had not been rail privatisation and local government reorganisation, we would have delivered that upgrade by now; in the first session, the Executive would have seen the project as something obvious that would be easy to deliver for a relatively low cost, and it would have delivered it.

One of my core points is that the current structures are a significant barrier to achieving things. That is particularly true for railways and as long as that is the case we will build roads because that is much easier to do.

**Iain Smith:** I was interested in your comments on the railways. As a commuter who uses the railways I share your concerns about the noises that are coming out of the SRA and Network Rail about maintenance of what they determine to be rural lines, but what I would determine to be significant railways. I do not think that the lines through Fife are rural. Could you expand on your comments about the Scottish Executive taking control of the maintenance of the track, in particular in relation to the discussion on the budget? What impact would that have on the Executive's budget?

**Dr Docherty:** We dealt with that matter the last time that I appeared before the committee, in its previous incarnation as the Transport and the Environment Committee. There has been some work on the issue since, which I will expand on.

We need to have devolution of powers over the railway infrastructure not only for the control that that would give us across all modes of transport but because we need more transparency. We still do not know how much money is raised by the rail industry in Scotland and what proportion of it is spent here. We get into terribly complex arguments. A relevant example is Network Rail's plans for the east coast main line. It has made a major investment of about £700 million in rebuilding Leeds station over the past five years or so.

The future of Waverley is clearly important to people in Scotland and that would naturally be the next project that Network Rail should seek to develop on the east coast main line. The problem is that, because of the lack of transparency and the messy division of powers between the London institutions—including Network Rail and the SRA—and the Scottish Executive, it is not clear who should pay for the project. In the current climate, in which Network Rail is told by the regulator that it has to cut costs as far as it can without impinging on safety—another issue is how far that can be achieved—there is no realistic expectation that Network Rail will fund the upgrade that Waverley needs. It will probably provide sufficient funding to keep the station ticking over and to make some minor improvements, which have been in the programme anyway, but Waverley will not get the same kind of investment that Leeds station has had. That does not necessarily indicate a bias against Scotland on the part of the SRA or Network Rail. It is a reflection of what has happened after Hatfield and the way that costs have escalated for basic maintenance and improvement of the network.

The Executive has two choices. A critique of the current Executive policy could be that it has laudable objectives for public transport improvement, but that there is not likely to be much finance from London to deliver them so the Parliament and the Executive should pay for them themselves. That is fine and it could mean that they are delivered, but there is a transparency issue about the financial basis of Scotland's railway system and whether we get out what we put in.

No one knows whether we get out what we put in. I am inclined to believe that the position is broadly neutral and that we probably do get out what we put in, although there will certainly be variations from year to year. As long as there is not enough transparency and ministers do not know how much it costs to deliver things and who is going to pay for them over the medium term, we are not likely to make good decisions. Uncertainty is a bad thing.

Apart from the issue of having control over the rail network, there is the almost mythical issue of a level playing field between road and rail modes. Having transparency and knowing exactly how much money is in the Scottish budget would allow us to make better decisions. That is at least as important a reason to support the devolution of rail powers as the creation of a level playing field is.

14:30

**The Convener:** Is it not possible to have that transparency as things stand at the moment? Network Rail has recently provided me with its budget for maintenance and renewal of the Scottish rail network for the past five or six years, which shows what it has spent in Scotland. I agree with the point that in some years the spend was less than what was raised, whereas in other years, it was more. It certainly seems to be possible to get that information.

**Dr Docherty:** It could be possible. There is no reason why Network Rail could not provide that information. The Scottish division exists as a separate accounting entity so there is no reason why that level of transparency could not be achieved if those organisations and the Governments here and in London wished it to be so. I am not sure whether that will happen because it seems that there is no incentive from the centre for it to happen at the moment. I agree that that transparency might be attainable. How close the relationship between Scottish ministers and those organisations would have to be, and whether it would work in practice, are different questions. There is also the issue of the level playing field and control over modes that would come into play.

I have a practical point to make. The issue is not all about politics or views about where competencies and powers should lie; it is about reality. As long as roads are easier to build because they are done in house—they are almost all done within the public sector and there is no need for complex partnership arrangements between a variety of bodies, wherever they might be located—then simply because of the opportunity cost, we will choose to build more roads than we might otherwise do. That might or might not be fairly subtle, but it is likely that the Executive's priorities in delivery of its aspirations are skewed because of it.

**The Convener:** It has been suggested to the committee by organisations such as Transport Initiatives Edinburgh and the Waverley railway partnership that the parliamentary process is a handicap to the delivery of rail projects, and that we should be changing legislation so that we can proceed with railways on a similar basis to how we deal with roads. Would that be an advantage?

**Dr Docherty:** That would be a clear advantage. The essentially private legislation that is required to achieve some of these railway projects is antiquated. The creation of the strategic transport authority seems to be an opportunity to do away with that and put in place a more efficient and streamlined system.

**Iain Smith:** If responsibility for the maintenance of the Scottish rail network were devolved to the Scottish Executive, how would we assess how much Scotland should contribute towards major investments such as the east coast main line or the west coast main line?

In your introduction, you indicated that you believe that if Network Rail was to reduce maintenance of the Scottish network, that would impact on the Scottish Executive's ability to deliver investment in the rail network. Why would that be?

**Dr Docherty:** On the first point, it is important to recognise that systems of shared authority across boundaries exist all over Europe, including inside the United Kingdom and between the UK and neighbouring countries. The Irish example is interesting as the enhanced line between Belfast and Dublin has been one of the railway success stories in Europe in recent years. It is jointly administered by Northern Ireland Railways and Iarnród Éireann in the Irish Republic. Essentially, each railway administration involved in such a venture bears a percentage of the costs. I do not see why that model could not be applied to Scotland's relationship with the rest of the British network.

It is important to remember that 95 per cent of the rail journeys that start in Scotland end in Scotland. That core domestic rail network must be the overwhelming focus of attention of domestic transport authorities and the Executive.

Since Hatfield, the cost situation has made things more difficult. We are not sure why the cost base of running the network has expanded as it has. People in the industry will give many reasons why—to use a law that is widely quoted in the transport press—delivering any infrastructure improvement now costs two and a half times as much as it did under British Rail. I happen to think that the structure of the privatisation is one of the reasons for that.

An advantage of the devolution of railway power is that, because 95 per cent of rail journeys start and end in Scotland, we have the potential to integrate better the provision of rail infrastructure with services. We could get much better value for money if we started to do that.

**Dr Jackson:** You talked about the fact that other countries have better ways of planning their transport system. Which ones could we draw on to find better solutions?

**Dr Docherty:** The obvious parallel to draw is with Sweden. On the face of it, Sweden's rail industry structure looks quite similar to the UK's. Its train services are provided separately from its rail infrastructure, for example. The key difference, however, is that Banverket, the Swedish railway infrastructure authority, has always been a creature of Parliament, much as Network Rail could become—or, de facto, has become—in the UK. The Swedish transport plan takes into account developments across all modes of transport and the Government simply informs Banverket what kind of railway it wants it to deliver over the next plan period, whether it is three, five or 10 years. It is then up to Banverket to deliver it.

That is sufficient in its own terms, but it is also important to note that it gives the Swedish Government a considerable degree of freedom in relation to how to provide train services. If the public sector provides the rail infrastructure in the same way that it provides the road infrastructure, there is nothing to preclude relatively efficient privatisation of train services as train operating companies would not be asked to bid for contracts to build certain parts of the infrastructure but could focus on delivering a quality service. Of course, there is a range of arguments about whether train service provision should be in the public or the private sector but, if we want to stay with the current model, we should ask the franchisees not to contribute towards infrastructure investment but to concentrate on providing a better, more efficient and safer service. In the current refranchising round, the Executive is moving strongly in that direction. Further reorganisation of the way in which the railway industry works would go further towards achieving that aspiration.

I have just realised that I did not answer the previous question about how Network Rail's cutbacks could affect the network. I will give a basic example. If the Executive spends around £150 million on a Glasgow airport rail link or £500 million on an Edinburgh airport rail link but the core network lines that feed into those new destinations—such as the line between Glasgow and Paisley or the Fife circle—are not reliable because the infrastructure has not been adequately maintained, the new services will not get the patronage that they would otherwise have had and the economic equation about whether we should have invested in them will change. There is no point in having a rail link to Glasgow airport if we cannot guarantee that people can get between Paisley and Glasgow in a safe and efficient manner.

We have to be worried about recent announcements on whether there could be an impact not just on reliability but on safety. We have been down the same road before. Railtrack was asked to cut its costs for different reasons,

because it was acting in a commercial environment. The way in which railway privatisation in Britain has been set up means that it is difficult for the track authority to improve its financial performance. It is not worth it for the track authority to run more trains, because it does not get much more income from that.

Railtrack had two strategies: to make a lot of money from its property portfolio and to cut its costs on the maintenance schedule quite severely, the result of which was the Hatfield accident. We should be honest about that. The Hatfield accident was not just a tragedy for the people involved; it completely set back the development of railways throughout Britain, probably for at least a decade. We have still not recovered the basic standards of reliability in engineering that we had before and the cost of delivering new projects is astronomical compared with what it used to be. That is the legacy of rail privatisation. To ask Network Rail to cut its costs and basic infrastructure again risks repetition of the same thing.

**Mr Andrew Welsh (Angus) (SNP):** Scotland is a land of great variety. In discussing your priorities, you concentrated on the central belt by speaking about cross-city links and so on. In Angus, an A92 link is being built to encourage commuting and industrial movement. With limited resources, what would your absolute priorities be and what would your priorities be outside the central belt?

**Dr Docherty:** My main priorities outside the central belt would be to continue to improve the key interurban links. One of the best things that we could do to improve the economic performance and regeneration of Dundee, which is not quite in Angus, would be to improve its rail link to Edinburgh. Continental examples show that improving commuting links by non-road mode—which usually means the railway—between cities of the same size as Dundee that have economic problems and areas of growth has been very successful.

If I could get the pronunciation right and remember the names of the towns correctly, I would give some examples of places in Sweden where Swedish railways had such a policy, which was backed by the Swedish Parliament. In declining industrial areas around Stockholm, rail investment has been targeted deliberately to enable sustainable commuting to try to improve the economic performance of those areas.

If members do not mind, I would like to expand my answer by setting Mr Welsh's question in context. I am lucky enough to travel round Europe a lot by surface modes. It strikes me that the basic quality of our transport infrastructure is poor; I think that there is consensus on that. For example, the A9 is a key tourist and business artery for

many of the communities outside the central belt. In many other northern European countries, such a road would have been built to the standard of a motorway, not because that level of construction could have been justified financially in the short or medium term, but because it might have been justified in the future. Rather than accommodating the travel demand that existed, the building of such a road might have generated additional demand. I will return to the environmental impacts of that.

In Denmark, there is a state position that says that all regions of the country must be linked to one another by motorway-standard roads. Those roads have been built, even though our understanding would be that they are not in any sense justified on economic grounds. However, in some of those places, those roads have acted as catalysts for economic growth that would not otherwise have existed. They make tourism much safer and more attractive to people. Last week, I came back from driving round France on roads that were empty. Such roads are much safer, more accommodating and more attractive to the tourist than is the prospect of battling on single-carriageway sections of the A9, the A96 or any other of the roads that we could mention.

There is an issue about whether we think that transport infrastructure investment should accommodate problems that we have at the moment or whether it should be a catalyst and provide potential for further growth. If we choose to go down the road of potential growth, there will be environmental implications, because that suggests that, in some circumstances, we want more road traffic. It is probably true that, in certain circumstances, we do want more road traffic.

If we consider some of the economic development policies that the rural enterprise companies have adopted, we realise that it is important that we let people travel. In such places, that often means travelling by car. The corollary of that is that we probably have to be harder on unnecessary road travel and congestion in the central belt, which means road pricing. I think that we need a much better and considerably expanded road infrastructure, as well as enhanced railways, but we need to pay for that somehow. As I have said, that probably means road pricing.

**Mr McFee:** I know exactly what you are talking about. I used public transport in Sweden, and was made aware of the extent to which the rail, bus and ferry systems are integrated there. It was quite an eye-opener, compared with what we have here.

Let me take you back to the rail network in the central belt of Scotland. Are you saying that, without proper control of the rail network and adequate investment in the basic structure, the

airport links, or at least one of them, could end up as being almost a white elephant? Would you say that the existing network is at the stage where, if we divert large amounts of capital to the airport links, we could in effect be consigning parts of it to the dustbin?

14:45

**Dr Docherty:** That is perhaps stronger than I would have expressed it, but the general sentiment of what you say may be true. Take Glasgow Central station, which is almost at saturation point. If we wanted to run more trains and services in and out of the station, including services to the airport, and if the capacity of the station were undermined because of reliability problems elsewhere in the network, those new services would not be reliable.

A lot of appraisal effort has been put into both the airport rail links. I know that Strathclyde Passenger Transport has argued strongly for years that a link between the airport and Glasgow city centre would simply not be economically justifiable, because so few trips to the airport—about 11 to 12 per cent, if memory serves me correctly—originate in the city centre. If the link is to work at all, it must reach beyond the city centre and across the whole network. If the reliability of services is not good, there will be fewer slots for trains, which means that it will not be possible to run all the services.

Manchester airport is a good example. It has a city-centre shuttle link but also a wide variety of services linking it with places across the north-west, north-east and midlands of England. It has exceeded expectations because of the very good connections into the regional rail networks. If, by implementing the wrong scheme and not investing in the network sufficiently to give us the opportunities to implement such schemes properly, we fail to achieve that, we will have spent a lot of money for not very much benefit.

However—and lest I be accused of being negative about it—I think that it is essential that we have the Glasgow airport rail link, even in the form in which it is currently proposed. It is not a case of the link justifying itself on economic grounds today. Rather, because competitor cities have such a high-quality infrastructure, and because of the opportunities that such a link would give us to do things better in the future, it is crucial that it is delivered as soon as possible. The same is true for the Edinburgh airport link.

**Dr Jackson:** If you had the money, what would you do in order to make the links between Glasgow and its airport better and work really well?

**Dr Docherty:** There has to be a connection across the river. Sometimes the geography gets a bit unfortunate: essentially, we mean a connection to the north and east of the city. That means that there has to be a north-south river crossing, with a link between the southern network, of which the airport rail link would be part, and the core domestic lines to Dundee, Aberdeen, Edinburgh and Fife. That could be achieved in various ways, and the Executive is examining a number of them.

The preferred scheme is the cheapest—using the existing infrastructure through the so-called crossrail scheme, which would use lines that are currently used only by freight services or by empty trains going between depots. They run across the surface bridge at St Enoch and then go either to the north-east, to the Edinburgh line, or west through the Queen Street tunnel. The scheme raises all kinds of operational issues, which Stephen Lockley will be much better qualified to discuss, as he was intimately involved in the appraisals for many years. One issue is that, unless we build some new capacity into that key link, rather than simply try to fit some more trains into the existing core tunnels, we will not achieve terribly much, as there is not that much capacity there.

In addition, nothing that we do to make Glasgow airport more accessible to those in the central belt must prejudice the accessibility of the city centre. If we go for the cheaper, surface-level option, trains that approach Glasgow will be faced with a choice: either they will go into Queen Street station and stop, as they do at the moment, or they will go on the surface line, which would take them via Glasgow Cross, over the bridge there and round to the airport. That would make the city centre less accessible because it would not be possible to run parallel services. We could not have additional trains to the airport and still have the Glasgow to Edinburgh or Aberdeen services because there is simply not enough track capacity.

The risk is that, instead of having four trains an hour to the city centre, we would have two to Queen Street station and two that take the lengthy detour around the city to serve the airport. That would help nobody. To return to what I have said previously in submissions to the Transport and the Environment Committee, one of my key messages about the link between transport, investment and economic development is that because Glasgow and Edinburgh are Scotland's two prize economic assets, we must do nothing to prejudice their vibrancy. They sustain the economy at its present level—it is not declining—and they are where the opportunities arise for growth in the medium term.

Sadly, the solutions to the problem would cost a lot of money and some would involve rather ambitious engineering, depending on which tunnel

option is chosen. Several European cities of the size of the Glasgow conurbation, or significantly smaller, have recognised the problem of having two terminal stations and have solved it through the obvious solution of a direct tunnelled link between them. Turin and Antwerp are building such tunnels and Hamburg and Munich have done so already. Such a link in Glasgow would open up the capacity of the existing network because there would not be the problem of trains having to turn round at termini, which reduces the possible number of through services.

There is one public transport project that is not a priority at the moment but that I would like to be at the top of the list: bridging the gap across the city of Glasgow. That project would achieve improvements throughout the Scottish network. For example, it would allow people to travel directly from Stranraer to Aberdeen or to commute by train to Edinburgh from just about any station in Strathclyde. Because the project would open up such opportunities and would have benefits throughout the network, it might begin to have an impact on road traffic levels. If the proposed link to Edinburgh airport were also built, the Glasgow project would mean that Edinburgh and Glasgow airports would be linked because trains could travel from Edinburgh Waverley station to Edinburgh airport and then on to Glasgow city centre and Glasgow airport.

Again, I point to a European example. The Ruhrgebiet conurbation is relatively similar to central Scotland in that it is a large area with two competing airports in Dortmund and Düsseldorf. In that area, the single airport solution has been rejected for a suite of reasons, in much the same way as we have rejected that solution. Instead, it has been decided to concentrate on linking the two airports with the cities and building a new through-rail connection.

The Glasgow project would be my one new priority project. My other priorities would simply be to deliver what we already have on the books, to finish the motorway network to a standard that gives us through-motorway links in the central belt but that does not encourage unnecessary commuting, and to fill some of the obvious gaps in the rail network, such as the Shotts line.

**The Convener:** That brings us to the end of our questions. I thank Iain Docherty for his evidence, which has been worth while and which will give us much food for thought in the course of our considerations.

We will have a two-minute break while the next witnesses come forward.

14:52

*Meeting suspended.*

14:56

*On resuming—*

**The Convener:** I welcome representatives from the Convention of Scottish Local Authorities. We have Councillor Corrie McChord, vice-president, James Thomson, finance policy officer, and Norie Williamson, strategic director. I invite them to say a couple of words of introduction, but perhaps not too many. I apologise, because we overran slightly with our first witness. As you gave us a written submission, perhaps we can go into it with questions.

**Councillor Corrie McChord (Convention of Scottish Local Authorities):** I appreciate that, convener. There are pressures on our time as well. We did not expect to be here so long.

I stress the three key messages in the conclusion of the written evidence that we submitted, the main points of which are partnership, transparency, resources, flexibility and trust. We are keen on those. First, partnership is important to us—it is the first priority for working relationships in the future. We do not feel that we are quite there yet. We have an interesting relationship, with all the courtesies and civilities and sometimes frustrations and occasionally anger, but we do not yet have the robustness of a partnership, which we will be working towards. To be fair, the Minister for Finance and Public Services showed willingness in meeting us regularly, but we feel that in future we need to stress the outcomes and action points that come out of those meetings.

Transparency is the main issue that we want to cover today in terms of working towards a comprehensive local government budget, for which I know the committee has been asking for some time. We know that it is impossible to have an entirely comprehensive budget at the beginning of a financial year, but there could be some method of aggregating the budgets that we have now. If we cannot do that, there may be something wrong with the Scottish Executive's control systems. We would like to discuss further how we can get as near as possible to a comprehensive budget that we can all understand.

Flexibility and trust are important in the partnership, and we hope that the Executive feels the same. We want parity of esteem, although we understand that parity of esteem does not mean parity of decision making in terms of macroeconomics and big social agendas. We will work towards achieving parity of esteem and a genuine recognition that local government is greater than the sum of all its parts. We are not just 32 administrative units for the Scottish Executive; there is richness and diversity in the way that local government does its business, as

well as a spectrum of needs. We hope that that is acknowledged. We are responsible to our electorates and to the communities that we represent.

**Mr Welsh:** What do you take the base budget for local government to be? How did you arrive at a definition and costing of the base budget?

**Councillor McChord:** The definition has to be made in partnership, and we have to talk seriously and quickly about costing. Perhaps Norie Williamson could go through that. As I have said before, a comprehensive budget might be impractical, but we can get 95 per cent of the way there in the way in which spending proposals and initiatives come from the Executive.

**Norie Williamson (Convention of Scottish Local Authorities):** Our written evidence shows that we recognise where we are in the budget process this time round. Our evidence is geared towards preparations for next year's spending review. The linchpin for that spending review process should be the identification of a baseline budget for 2005-06. If we do not get that, the framework that we have agreed with the minister will fall apart.

We have to know where we are starting from. That baseline budget is not just what is within the aggregate external finance or the main grant resource. As the previous Local Government Committee said, it has to cover all forms of local government finance, whether that is money for social inclusion partnerships, health improvement, the cities growth fund, the schools fund, the strategic waste fund and so on. There is a good reason for the plethora of funds, but we must be able to understand what our baseline starting point is.

The annex to our report details the supplementary announcements that have been made since the main announcement last December. We should emphasise that we do not regard that as the local government budget or the baseline budget. We asked for a local government budget in September 2002 when the spending review 2002 figures came out, but we are still waiting for that budget. When we met Andy Kerr on 21 August, he agreed to provide that comprehensive local government budget, and we look to him to deliver on that promise. It is the linchpin of the spending review process.

**Mr Welsh:** Is it feasible to calculate a local government baseline budget from existing information? You have not answered the question about what your idea of the base budget is. From the existing information and the way in which it is presented, is it possible to produce a base budget for local authorities?

**Norie Williamson:** There would be grave difficulties with that at the moment because we cannot read across the Executive's departmental budgets. That is more of a reflection on the Scottish Executive's financial controls. We would like that issue to be addressed as a matter of priority. We will need to work on that, but we are looking for the Scottish Executive to deliver on promises that it has already given.

**Mr Welsh:** So you are really calling for disaggregation. Services are integrated and interconnected but budgets are not. Local government connects and works with health and all the other services, but budgets are in separate categories. Until they can be disaggregated, you will not get your separate budget. Is that correct?

**Norie Williamson:** There is an interesting distinction between funding and costing and the outcomes approach. Fundamentally, we agree that both should be joined up. We want a starting base so that we know where we are starting from. The services that will be delivered from that base are a subsequent consideration.

**Councillor McChord:** The historical response to a question about budgets from the Scottish Executive and the former Scottish Office was always that the answer was in the AEF. That is an old story. We do not want disaggregation and to know where everything is as much as we want a transparent process. It is important to let us establish our spending at the beginning of the year so that we can plan our effectiveness.

For example, a lot of good projects have come out of end-year flexibility, which I hope we can get again this year. However, the problem is that that funding is loaded at the end of the year, when we cannot do a lot.

**Mr Welsh:** You look for transparency and traceability so that you can track where the money goes, which helps you to see whether the outputs and outcomes were as everybody predicted. What are your ideas for achieving greater transparency? That is a practical problem in which you are heavily involved.

**Norie Williamson:** It is a building-block process. We recognise the current situation—I mentioned the resources that come local government's way but that are in departmental budgets. However, that is a start to the process. We want to aggregate those resources while recognising that we are working with our community planning partners. Service provision to the public on the street is of paramount importance. We all have to work together towards that. The process is evolutionary and we are looking for a start to it.

**Mr Welsh:** How long will a base budget scheme take to evolve further? Everybody wants the base budget and to be able to trace spending and

consider outcomes. Without a base budget, we are talking in a vacuum and dealing with a maze.

**Councillor McChord:** We recognise that the way forward involves the partnership agreement and the five thematic areas, but we will closely monitor and review that process—and COSLA's backing for it—because there is no use in our having talking shops. We want to make progress, which will take time. The spirit of the process is what is most important.

**Norie Williamson:** As our submission says, we are about to enter into bilateral discussions with ministers who are responsible for public services. We have emphasised that the spending review process should not necessarily be a financial exercise. It is policy led and finances are dealt with at the end of the process.

We will start those discussions in the next few weeks. As a part of that evolutionary process, we need an early indication of a starting base—of ministers' understanding of a local government budget. We can then work on that in the next year or so until the spending review 2004 results are announced, when we hope to have a clearer understanding and read-across of departmental budgets.

**Mr Welsh:** We all seek clarity.

**Mr McFee:** I have a great deal of sympathy with the idea of establishing a base budget, having just come out of 15 years in local government during which the base budget could not be established. I also have a great deal of sympathy with part of the argument in COSLA's submission about how additional funding announcements are made. It is often found that additional funding is not available and that what is incorporated in an authority's base budget has simply been repackaged.

If local authorities and the Scottish Executive could take one action to move the process on, what would it be? I understand that the Executive's definition of local government's base budget for social work, for example, might be different from your understanding of what your base budget must be.

I will wrap up by asking whether it would be useful if the cost to local authorities of new burdens, which are numerous, was properly identified from day one in AEF.

**Councillor McChord:** The Executive does not encourage us to use the word "burden", but we prefer to use that word, because such initiatives become burdens as we often do not have the finances to back them up.

**Norie Williamson:** I will answer your fairly tricky question about which one action we could take. The one solution that local authorities and the Executive could adopt is to work in partnership.

We should work together towards the same aim. As Councillor McChord said, we have identified five partnership areas on which we will work and which we will monitor closely. We hope that that will develop the process.

Throughout that process, we hope to identify new initiatives or burdens—whatever word is used—and to recognise with the Executive the impact of those initiatives and the funding that is needed to deliver them. Through that policy-led process, we hope to move things forward in partnership.

**Mr Welsh:** What are the five partnership areas that COSLA has identified? The information could be supplied afterwards if it is not handy.

**James Thomson (Convention of Scottish Local Authorities):** The five agreed partnership areas are the joint future agenda, health improvement, housing regeneration and sustainable development, integrated children's services and antisocial behaviour.

**Councillor McChord:** Those areas are thematic areas, which might help the process in a horizontal way by providing links and encouragement to the Scottish Executive and civil servants in particular. We are not just dealing with a vertical system or monolith. Such an approach will further encourage the community planning process with our partners in the local areas.

**Mr McFee:** I am hearing all the buzz words, but I want to cut to the chase. I am familiar with thematic approaches and am hearing all the things that I heard for 15 years during which there was no progress. What can local authorities and the Scottish Executive do within partnership working arrangements to establish a base budget for local authorities? Are there logjams that you cannot seem to get past? What can be done to break such logjams?

**Councillor McChord:** Norie Williamson has answered the question as practically as possible. We must be transparent and honest with each other, and that is a two-way process. I have been involved in local government for a long time. Over the years, we have not always been honest about how we have spent our money and about how local needs and budgets, rather than grant-aided expenditure, have been prioritised. We could at least be honest. Currently, roads and transportation are big issues. To solve Scotland's road infrastructure problems, we need to be open and honest with each other about the application of finances and resources. That is not happening, and as long as it does not happen, we will not make any progress. There must be honesty and trust.

**Paul Martin (Glasgow Springburn) (Lab):** Corrie McChord mentioned concerns about the

fact that end-of-year funding arrives at the end of the year, which causes difficulties. I am trying to see things from the Executive's point of view. The minister would say, "In what other way could I possibly deal with the matter?" The Executive faces the difficulty of people taking up Executive programmes that result in end-of-year funding being available. I appreciate Corrie McChord's concerns, but how should the Executive deal with the problem?

**Councillor McChord:** I could be mischievous and say that the Executive could have loaded money at the front of the year. First the minister said that there was a £500 million underspend. When we questioned the Executive, it said that the figure was slightly less than that and it was thought that there might be a £440 million underspend, which was the same amount that local government said it was short of in its budget last year. However, perhaps that would be a bit mischievous.

**Norie Williamson:** We should not be too negative and we should applaud the Scottish Executive for prudent financial management, which is the way in which a local authority would handle its finances. Ordinarily, end-year flexibility resources—which are one-off resources—are known around June and July. We have welcomed the £95 million quality-of-life moneys and the consolidation of £180 million quality-of-life moneys in the next three-year settlement. When the announcement was made on 11 September, we were hoping for further one-off investment in quality-of-life initiatives that we had identified and we were slightly disappointed that it was not there. However, we still emphasise the benefits of the system.

We would like to delve more deeply into two aspects of the 11 September announcement with the minister. First, we understand that around £200 million is being held back for the spending review process and the partnership agreement commitments. If that money is used to good purpose, that will be a sensible use of resources, but we would like to discuss the proper use of those resources with the minister. That takes us back to the partnership discussions. We understand from the September announcement that the second area of resource flexibility is rates buoyancy. There is an increased rates buoyancy of some £148 million in the system, which should continue in the future. That is local government's money—it is part of the AEF system—and we should discuss the best use of the money with the minister.

**Paul Martin:** That partly deals with what I asked. I do not want to labour the matter, as there are other questions.

**The Convener:** You may ask a supplementary.

**Paul Martin:** The other issues that were mentioned are helpful, but I want to clarify that there is no way that the Executive can avoid end-of-year funding. Council leaders face that issue every year, too. Council leaders and the minister must face it.

**The Convener:** I will build on what Paul Martin says. In many cases, end-year flexibility relates to projects that have been committed to but that are not as far advanced as they could be. We are not talking about projects that have gone away. Therefore, EYF money is not always current money—it is often for capital projects.

**Norie Williamson:** As the partnership develops, we might discuss the themes for spending. No matter what such spending is called, it has resulted in good environmental work and good work with children, for example. However, at the end of the day, it is loosely ring fenced for such themes. In the future, we would like to discuss how needs might be moved.

**Iain Smith:** I have a couple of questions on local authorities' capital positions. The draft budget document implies that there will be a small real-terms decline in capital funding over the next three years, but that does not take account of the revenue support that might come through level-playing-field funding and the new prudential regime. Has COSLA made any estimates of the overall impact on the capital investment opportunities that are available to local authorities in the budget, taking into account the prudential scheme in particular?

**Councillor McChord:** You would do well to link revenue resources with capital resources, as lack of revenue can often de-stimulate any notion of capital spending that we have.

15:15

**Norie Williamson:** I will deal with the various elements of the question, starting with local government's overall investment needs. In the submission that we made to the spending review 2002, which was developed jointly with the professional associations, we developed an investment need of some £4 billion in areas such as schools, roads, transport infrastructure and leisure facilities. It is always difficult to estimate capital investment needs, and £4 billion was the best assessment we could make at the time of the cost of maintaining infrastructure and taking forward the modernisation agenda. That sum did not include potential public-private partnership projects.

The capacity in the system was helped by the most recent settlement announcement. Interest rates have dropped, but the Scottish Executive maintained the loan charge support through

revenue for 2003-06 at its previous levels. As a result, there is a possible increase in investment capacity for councils. Last December, the Executive suggested that that would be something like £350 million for Scotland as a whole. We acknowledge the theory of that increase, but are concerned about transparency. We asked for the detail behind the calculation of the figure of £350 million, but we have not received that clarification.

The prudential regime has been welcomed and is one of the successes of co-operation among all concerned, including the previous session's Local Government Committee, which pressed for it in an inquiry. The prudential regime will give local government more flexibility to invest. At the end of the day, affordability will be the crucial factor. If the revenue support is not available and the Executive does not commit at least to maintaining loan charge support at its current level, if not to increasing it, the benefits of the prudential regime will be significantly hampered.

**Iain Smith:** To put it in slightly crude terms, if we take as the baseline the £4 billion investment need at the start of the previous spending review period, will the need be bigger or smaller?

**Norie Williamson:** We still have to go into that for the next spending review, so I would not like to predict, but I expect that, because of the types of investment that have been made, the investment need will be round about the same. The link between revenue and capital is important. We must always remember that capital projects have a long lead-in time and cannot be got off the ground quickly, so they need to be planned well in advance. Long-term certainty of revenue support is needed.

**Councillor McChord:** With physical infrastructure, the issue is making a stitch in time. The problem is that, as roads and other parts of the physical infrastructure get worse, it takes much more to repair them. I suspect that, in many areas, the bill is going up.

**Iain Smith:** Has COSLA estimated how much additional capital investment will be available next year because of the introduction of the prudential regime?

**Norie Williamson:** No. That is the simple answer. The Executive has suggested that it could be £350 million. We recognise that the increased capacity exists, but we are not sure whether that figure is correct.

**Councillor McChord:** It depends on the council. An area of dynamic growth is quite different from one that needs to factor regeneration and social inclusion into its budgets.

**Dr Jackson:** I was interested to read the paragraph in your submission about quality-of-life

issues and investments. Will you keep us informed of your negotiations with the Scottish Executive about the £200 million and the £148 million that you mention there? I would be very interested to hear about those.

I welcome what Corrie McChord said about the need to examine some issues horizontally. I am particularly aware of the difficulties that we have experienced in bringing together vertical budgets for regeneration projects and so on and am interested in pursuing the matter. I see that there might be difficulties in accounting and determining where the money is. You may want to comment on how easy it will be to have transparency. Norie Williamson can address the points that I have made later.

As you know, the issue of roads is very pertinent to me. Corrie McChord suggested that, with non-trunk roads, a stitch in time saves nine and that the longer we leave the problem, the more difficult it will become. Can you say more about how the prudential framework can be used to deal with the issue? You seemed to indicate that there could be a difficulty if the link between capital and revenue is not worked out. I know that Stirling Council is putting together a plan to examine the roads infrastructure in relation to the prudential framework. I do not know whether that is a general model that is being used across Scotland. I would be interested to hear your comments.

**Norie Williamson:** Sylvia Jackson asked about the need to examine issues horizontally rather than vertically. From the start, we have been adamant in stressing that the five partnership areas cannot be set up as silos—there must be read-across between them and they must talk to one another. To assist in that, we have identified the quarterly meetings that we have with the Minister for Finance and Public Services as a monitoring arrangement. There will be reports back from each of the five partnership areas, to ensure that there is cross-working and that silos do not develop.

I accept fully what Sylvia Jackson says about the difficulties that that may cause for accounting and we must address those. Councils also need to grapple with the accounting difficulties associated with joint arrangements with health boards. However, we should not let accounting arrangements get in the way of service provision. As an accountant, I have always seen my role as being to make finance help rather than be a hindrance. It is up to us as professionals to examine ways of making the system work and we will do that.

Roads investment was one of the areas that benefited from the quality-of-life money. Given the level of resources required, the investment was fairly minor and tended to be used simply to patch

up roads and pavements. As Sylvia Jackson said, major investment is needed. The prudential framework will provide flexibility. One of our main achievements four or five years ago was to have the single consent issued to councils, which provided them with the flexibility to invest as they considered appropriate. We want to sit down with the Executive to make the link between revenue and capital funding of priorities in the partnership areas and to discuss the investment that can be made in areas such as roads.

We have a slight concern about the December announcement. Although there was an increase in resources, in areas such as flood prevention, policing and fire services ring fencing of capital grants was introduced, as our submission indicates. Those new arrangements will come into force from April of next year, but we still do not know the level of capital grant that will be paid to local authorities. If the level is about 50 per cent, as it currently is for flood prevention grant, that means that local authorities will have to pick up the 50 per cent balance. That would eat into the prudential flexibility that might be available to local authorities. We need to have a discussion on transparency and openness. The capital grant route that we are increasingly going down might put good money into local authority's hands, but there is an increased element of ring fencing. We need to sit down and agree priorities on investment.

**Mr McFee:** My question is on the prudential framework. Local authorities do not currently have an indication of the level of revenue support for any borrowings that will be undertaken. That makes the matter almost academic until we know what the level of revenue support will be. Level-playing-field money is currently available for PPP projects, and schools are probably the greatest source of take-up for that money. Should level-playing-field money follow the project rather than the method of financing the project? In other words, if one wanted to refurbish all the schools in an area, getting level-playing-field money, or a similar investment, should not rely on one going down the PPP route. Can you envisage scenarios in which there would be more efficient use of public money if level-playing-field money—or the money available for level-playing-field money—were to follow the project rather than the method of financing the project?

**Councillor McChord:** I can see that flexibility in the future to fund projects other than schools, such as leisure and recreation facilities, might be helpful. Sometimes borrowing on the open market can be as good an option as being tied into a particular financing scheme throughout the process. I have not examined the issue to any great extent.

**Norie Williamson:** We need to discuss the matter with the Executive. We were faced with what was in some respects a statement that education was the priority and would be the main focus for the level-playing-field support for PPP. Inevitably, when local authorities have that option, there is a temptation to go for such support.

The discussion should be opened up. We come back to the balance of revenue versus capital support, which the prudential regime rightly opens up. We must consider the balance of support for capital projects. As Mr McFee suggests, a refreshing way to look at the matter would be to consider the project rather than the funding mechanism. The priority is to provide the services on the ground. We will take that idea forward with the minister.

**The Convener:** I will bring us back to the issue of the future revenue budget. What proportion of the increased budget from 2003-04 and 2004-05 does COSLA believe will fund inflationary pressures on councils, whether those relate to wages—which are probably the biggest inflationary pressure on councils—or other aspects of their budgets? What proportion of the budget do you believe is for new initiatives—I prefer to use the term “new initiatives” rather than “burdens”? Can you indicate how much of the growth of about £350 million will fund inflationary pressures and how much will fund new initiatives?

**Councillor McChord:** We welcome the recognition of inflationary pressures and of wage and salary pressures. There were lean years when those pressures were not recognised; that put immense strain on local government budgets. It is helpful that the pressures are now at least recognised.

**Norie Williamson:** I do not have the figures with me. I can look into the matter and provide details to the committee. As I understand it, the assumptions underpinning the calculations were pay pressures of 2.5 per cent and price inflation of 1.25 per cent. In some respects, the process is an iterative one. Those pressures are faced on the ground, so they have the first call on the available money. The balance should be available for discussion so that it can be allocated to core services or to new initiatives. The committee will recognise that we will get into that sort of discussion in the context of the framework that we are suggesting for the next spending review.

Our intention is to break the figures down, as the convener suggests, into the various cost components. A difficulty that we had in last year's spending review was that we approached it in such a way as to maintain the core services of local government. We tended to do that by identifying the overall spending needs of local government. We came out with one figure for our

spending need, but that made it difficult for us when we got into negotiations with the Scottish Executive, because if one element caused difficulty, it tended to undermine our whole case. This time, we will break the costs down and discuss pay and prices separately from new initiatives and the areas of difficulty with the current spending review period. I can dig into the annual movement and report back to the committee.

**The Convener:** Your figures would be useful. Given our short reporting time frame, it would be helpful if you could send them to the clerk relatively promptly.

15:30

**Councillor McChord:** In addition, we are fully responsible and self-disciplined enough to handle our own internal affairs concerning negotiations with trade unions. If we say we are putting in 2.5 per cent of the budget, we do not intend to give 4 per cent in pay rises. However, if there are Scottish Executive or Westminster Government initiatives, such as McCrone or initiatives on police, fire or whatever, we would expect the balance to be funded.

**The Convener:** That was the other issue that I wanted to come to. I welcome what you say about local government realising the responsible role that it must play as an employer in negotiations with the work force. Do you have any indication of the inflationary pressures that you may face next year? I realise that different groups of staff potentially will face different pressures. Obviously, we are all aware of the current dispute with nursery nurses. Can you indicate the figures for inflationary pressures that local authorities are working to?

**Norie Williamson:** Clearly, authorities will have used their own budgetary assumptions. The difficulty that we face is that the current multiyear agreement with local government employees and teachers comes to an end in March next year. We are just about to get into negotiations with the unions on future settlements. We hope to address the issue on a multiyear basis, because we recognise the benefits that arise from that. Generally, I would have thought that councils have built in figures of 3 per cent or perhaps 3.5 per cent. I say that without prejudice to any negotiating process.

**Mr McFee:** Have you made any allowance for the single-status agreement in your estimate of wage inflation, or do you expect that to be revenue neutral?

**Councillor McChord:** I remember when we said that it would be neutral, but I suspect that it will not be.

**Norie Williamson:** Again, that is a matter for local negotiation. When we submitted evidence to the spending review 2002, we identified that as a spending pressure, but we put it below the line. We did not suggest that it would be in our bid for additional resources. The figure that we used was based on professional advice from personnel directors, who suggested at the time that the cost could be somewhere around 6 per cent of the payroll. From memory, that was about £136 million across the country, although the position varies considerably: in some areas, it is being negotiated on a self-financing basis; in others, it is an additional cost.

**Iain Smith:** One of the problems that the committee has in considering the overall local government budget is the fact that the Executive does not tell us in the budget documents what its assumption is on council tax increases. Does COSLA have any indication of what the Executive expects council tax rises to be, and whether local authorities are likely to be able to stay within the levels? I know that indicative levels were provided last year, but will local authorities be able to stay within them?

**Councillor McChord:** We will do our best to stick within the indicative levels. The situation in England and Wales, with all the sound and fury that there is down there, with local government blaming central Government and vice versa for what is happening, is not helpful. We do not have that sort of atmosphere in Scotland and we will try to keep council tax increases to levels that communities can accept.

**Norie Williamson:** We have questioned the Executive on that issue in the past. Its line has been steady and is that it makes no assumptions on council tax increases. Its rationale is that it fully funds any new initiatives, so such initiatives should be cost neutral for the council tax.

**Mr Welsh:** I want to ask about the flow of capital finance. If blocks of money come very late in the year, even if they are never enough, how do you cope with them? I imagine that there are immediate knock-on effects. For example, the building industry is pretty well occupied everywhere, so people will say, "Yes, we'll do the job, but for twice the cost." Therefore, councils do not get the full value of the money invested. Are there problems with the flow and timing of finance?

**Councillor McChord:** There are problems in the flow and there are problems in the resources available. Some work requires in-house project teams and you cannot keep such teams hanging around for ever. Having people waiting for work is not good. That goes back to the point that was made about links between revenue and capital.

Money is welcome but there can be problems. At local authority level—rather than at COSLA level—people will look for sustainable projects that can be delivered quickly, possibly by local people.

**Mr Welsh:** So, in many ways, the finance determines the projects.

**Councillor McChord:** It does.

**Norie Williamson:** As I said, capital projects have a long lead time so the flow of finance is a major difficulty in capital funding. We need early information and a commitment on the level of revenue support.

There is a suggestion that the market in PPP projects is starting to dry up. That drives up costs, so we need to discuss capital investment with the Executive on a project basis rather than on a funding basis.

**Dr Jackson:** Last year, we talked about the development of outcome agreements. Are there areas of best practice that we could draw on?

**Councillor McChord:** I am sure that there are.

**Norie Williamson:** I know that your time scales are restricted, but we can certainly provide the committee with details of best practice. Outcome agreements are a source of utter frustration for us in local government. Initially, we promoted single outcome agreements, but the Executive's reaction was that those would be difficult. The Executive has more than 300 priorities. If everything is a priority, nothing is a priority. We have to sit down with the Executive—perhaps in thematic working groups—to identify seven or eight key areas and a limited number of key indicators for them. That could allow us to make progress on outcome agreements. If we do not do that, we will add to the situation that seems to be developing, which is that separate little outcome agreements are being reached in individual service areas. That ends up being more bureaucratic than the ring fencing of resources that we have been arguing against. A high-level strategic approach is required.

**Dr Jackson:** What you say about progress and the need for more discussion is interesting. I would like to know how you get on.

**Councillor McChord:** To be honest, councils have always had difficulties with single outcome agreements, like the Executive. Things would be clearer if we had about seven or eight real, high-level priorities. They would probably involve the First Minister's five priorities, on which we thought work might have developed. Through the thematic working groups, there might be an opportunity to develop seven or eight main themes that we could sign up to.

**The Convener:** As you know, this committee has two remits—local government and transport—

so we are considering both aspects of the budget. Local government has a delivery role in transport and must also represent communities when developing transport infrastructure. What is COSLA's view on the Executive's transport priorities in the budget—for example, on the private-public transport split, and on the road-rail-ferris split? Do you support the emphasis in the transport budget or would you prefer a different emphasis?

**Councillor McChord:** We realise that the committee has a dual priority in that it takes an overview of local government and also considers the service area of transport, which is partially controlled by local government. We hope to send other people to the committee to give evidence on transport services and we will consider that issue through the thematic working groups. Perhaps Norie Williamson has something to say on the issue.

**Norie Williamson:** I do not pretend to be an expert on transport—I am not a repeat of the previous witness. As Councillor McChord says, we have major concerns about the new transport agency and we would welcome the opportunity to give evidence to the committee on that.

The basis of the question was about how we can assist the committee with the budget process next year. There is a major need for funding on roads and transportation. One of our concerns is about what appears to be an uncapped budget for the ScotRail franchise—that money comes from a finite resource, so something will have to give. We would be concerned if local government resources were raided to fund the franchise.

We also have concerns about lifeline air, ferry and road routes and about road maintenance needs, an evaluation of which is being carried out by professionals. The principle of concessionary travel is good, but the appropriate infrastructure must be in place. Given that concessionary travel causes difficulties with local routes in rural areas, there must be investment in those routes.

**The Convener:** The witnesses might be aware that we intend to take evidence on local roads from local government transportation officials and to delve into the issue in more detail. My question was whether local government supports the general thrust of the policy of public transport taking up a greater proportion of the budget. Another question is whether the increased resources that have been put into transport during the current spending review period are sufficient to start addressing some of the needs, leaving aside the question of local roads, which is a contentious issue.

**Councillor McChord:** The resources are enough to start with, but we need more strategic

planning. There is support for the establishment of an agency to carry out such planning, but we feel that that route is not necessary. The initial funding is enough to spark off improvements. It is unfortunate but, at the end of the day, the issue comes back to roads. Sylvia Jackson knows better than I do that if we continue to invest massively in 6 per cent of our road network to the exclusion of the rest, that will cost us a massive amount in the future. That takes us back to the issue of making stitches in time.

**The Convener:** That brings us to the end of our questions. I thank Councillor Corrie McChord, Norie Williamson and James Thomson.

I will suspend the meeting for two minutes while we bring forward our next witnesses.

15:42

*Meeting suspended.*

15:46

*On resuming—*

**The Convener:** As part of our consideration of the budget for 2004-05, I welcome Nicol Stephen, the Minister for Transport. Supporting him are Geoff Pearson, Jonathan Pryce, David Dow and Claire Dunbar-Jubb. I apologise for keeping you all waiting a little bit longer than expected. Hopefully that means that the quality of questions that we will be able to put to you will be all the more enhanced. Before we move to questions, I will give the minister an opportunity to make some introductory remarks about the budget process.

**The Minister for Transport (Nicol Stephen):** Although this is not my first time in front of the committee, it is the first opportunity that we have had to consider the wider transport issues in my portfolio. It is right and appropriate that that should be in the context of the acid test of the budget and the funding allocated.

At the outset it is important to recognise that as well as the current major consultation on the proposed new transport agency and the development of regional transport partnerships, the work of delivering investment in Scottish transport is already under way. The budget for 2004-05 will be put to effective use in delivering the programme that we set earlier.

Our approach will be based on setting long-term objectives—the department is involved with several significant long-term projects—and then working efficiently, effectively and as speedily as we can towards meeting those objectives. We all want delivery in relation to transport.

I would not expect the committee to find any surprises in the budget. The priorities that I and

my department have set are known. We are making a fundamental switch from the previous focus on roads and road building towards public transport investment that benefits everyone. Our plan is to continue that momentum in favour of public transport and to move to a position where 70 per cent of our funding will be in public transport by 2006. It is also worth emphasising that spending on public transport is using 2002-03 as the base, so during the years 2003-04, 2004-05 and 2005-06, spending on public transport is set to rise by 70 per cent. However, the overall budget is expanding, which means that we will continue to invest significantly in the trunk road network. After all, it is a significant asset for Scotland and must be maintained to a good standard. We will also press on with a number of major road projects to which we are committed.

To give members a sense of the scale of the investment that is involved, I will highlight some of the major transport projects that are under way. It is envisaged that, under the Stirling-Alloa-Kincardine Railway and Linked Improvements Bill that is currently before the Parliament, £37 million will be spent on establishing the Stirling-Alloa-Kincardine line. The Executive is committed to funding the project to the tune of £30 million. The Waverley Railway (Scotland) Bill, which seeks to establish the Borders rail link, is just beginning its parliamentary passage and quotes a figure of £130 million of required investment. More than £100 million is being invested in the Glasgow airport rail link and closer to £500 million is being invested in the Edinburgh airport rail link. Moreover, with regard to the rail franchise, the draft budget contains a figure that is based on the current expenditure of £210 million a year. Finally, the Executive has made a commitment to invest £375 million in the Edinburgh trams project. We should also not forget the scale of the commitment to complete the extension of the M74, which is the most significant roads project in Scotland and is estimated to cost between £375 million and £500 million.

We are proposing only limited changes in the 2004-05 budget to achieve two main aims. First, there is a technical adjustment in the handling of capital charges, and our technical expert, David Dow, will be able to explain the intricacies of the adjustment in more detail if required. Secondly, we are making provision to start work on the new commitments and priorities that have arisen from the partnership agreement.

There is a big change in the provision for capital charges, which is something that members will be aware of from other parts of the budget and has been driven by the Treasury's changing the rate that we are required to charge from 6 per cent to 3.5 per cent. However, this area is complex and the change has not been made for that reason

alone. There has also been a change to the basis of calculation for public corporations, which affects us in relation to Caledonian MacBrayne. However, the important point is that none of that has any effect on the amount of resources that are available for spending on transport projects and will have no real impact on the Transport Department's ability to spend and deliver.

I will turn briefly to our commitments in the partnership agreement. We are adding £11 million next year to the provision for grants to local authorities to enable them to begin work on 20mph zones around schools and to continue work on other safety-related school projects. Such projects improve life in areas that are affected by traffic and improve the safety of children as they travel to and from their local school.

We will also increase the integrated transport fund by £25.7 million in 2004-05 and by £32 million in 2005-06 to cover start-up and consultation costs for a number of partnership agreement projects. I will give more details about those projects as they are developed.

This budget is again intended to support economic growth, social inclusion and sustainable development through a strong and clear approach towards improving services and modernising our transport infrastructure. I am very happy to answer questions and hope that, in due course, the committee will find itself able to support this important budget.

**The Convener:** I thank the minister for that comprehensive introduction. Bruce McFee will open the questioning.

**Mr McFee:** It was stated in "Building Better Transport", which was published earlier this year, that spending on public transport would rise by 70 per cent over three years. However, the draft budget indicates a rise of 55 per cent over that period. Will you explain the difference?

**Nicol Stephen:** Yes. I often make speeches that talk about a rise in the Transport Department's budget to almost exactly £1 billion in 2005-06. Members will see that, in the column for 2005-06 on page 134, there is a total figure of £1,380.29 million. In table 8.02, we have deducted the annually managed expenditure line, which is the capital charges figure. Members will see that, for 2005-06, that figure is £347.95 million. Subtracting £347 million from £1.38 billion gives a figure of £1 billion for the expenditure on public transport by 2005-06. I gave members the reason for removing the capital charges figure in my introduction—it is a notional figure that can change from year to year. The Treasury has changed the figure quite significantly this year; it has decreased it from 6 per cent to 3.5 per cent. That is not money that we are spending on transport—it is a notional sum

that reflects capital charges that were associated with previous capital projects. When that adjustment is made, the percentage that is actually spent on public transport projects is 70 per cent.

**Mr McFee:** So the difference in the figures relates to a change in the basis of the calculation.

**Nicol Stephen:** David Dow might want to take the opportunity to explain that a bit more. As I understand it, if one takes out the £347 million of capital charges, the proportion that is spent on public transport becomes a proportion of £1 billion rather than of £1.3 billion. I think that that would account for the variation from the figure of 55 per cent that you spoke about.

**David Dow (Scottish Executive Finance and Central Services Department):** Capital charges are the Treasury's way of trying to make departments and branches of Government recognise that there is a cost to holding assets. For many years, the Treasury has been using 6 per cent as a figure that more or less represents the cost of borrowing by the Treasury, or the interest that is foregone on money that the Treasury could otherwise have lent. Capital charges have been brought down in line with modern interest rates—that explains the figure of 3.5 per cent.

The regime makes a lot of sense when a department has the option of whether to hold assets—for example, its offices. It makes less sense when a department or a portfolio has to hold assets—such as the roads network. That is the theoretical background.

**The Convener:** Does the change in the figure also arise from the change in budgeting treatment?

**David Dow:** Yes, it has come in with the change to resource accounting. The Treasury will initiate a further change, which it is calling the whole of Government accounts programme. The link is that the Treasury wants it to be clear from the national accounts—the wider-scale accounts—that someone within Government has borrowed money to make it available to the Scottish ministers, even though the Scottish ministers themselves have not borrowed to fund the projects in question.

**Nicol Stephen:** I do not want to mislead the committee. I notice that table 8.02 gives the split between departmental expenditure limits and annually managed expenditure for motorways and trunk roads. I think that the figure should properly include other capital charges. We should be reversing our other capital charges to give a fair comparison. To be clear on Bruce McFee's point, I would like to provide the committee with information that links the figures in the budget to those in "Building Better Transport". The answer

that I have given is essentially the right answer, but I want to clarify exactly which capital charges we are discounting when we give the figure of 70 per cent.

**The Convener:** That would be useful. Given the tight time scales before we report, it would be much appreciated if we could get that information fairly quickly.

**Mr McFee:** Could you clarify whether the discounted method in relation to capital charges has been applied to 2005-06, or across all three years?

**Nicol Stephen:** It has been applied to all years.

**Mr McFee:** So the budgets for the three years that we are looking at have all been calculated using the same method?

**Nicol Stephen:** That is correct.

**The Convener:** On the proposals for the new strategic transport agency, are any assumptions being made about the cost of establishing such an agency in next year's budget?

16:00

**Nicol Stephen:** Not as yet. We are obviously looking carefully at exactly that issue, and I have received some advice on what might be an appropriate figure to allocate for next year. That advice has come up to me since the preparation of the budget document. The amount in question is not huge, but we intend to take the opportunity to clarify the amount of funding that we think it would be appropriate to allocate for that purpose. We hope to make that known over the next few weeks.

**Jonathan Pryce (Scottish Executive Development Department):** The amount of money for this year will be in the autumn budget revision when it comes before the Parliament.

**The Convener:** So the figure will be known before we reach the end of the budget process?

**Jonathan Pryce:** I think so.

**Dr Jackson:** Where will the money come from? It obviously has to come from somewhere.

**Nicol Stephen:** The intention is that the money should come from the integrated transport fund line in the budget. The rising line in table 8.08 on page 141 is the planned source of the funding.

**Dr Jackson:** Is that an increase on last year or the current year, or has it been distributed from somewhere else?

**Nicol Stephen:** The interesting point about how the budget documents are prepared is that the cost of the civil service and departmental support is not part of the transport budget itself. As soon as you propose the creation of an agency,

however, there are associated start-up costs, so the funding treatment is different. We therefore have to make the provision to which the convener has rightly drawn our attention. It is important for us all to be clear about exactly what is proposed new funding for additional members of staff, and I have made it clear that, if we do establish that agency, it is my intention that we bring in individuals with new skills relating to the bus industry, trams and the rail industry. There will be some additional costs, but there will also be a number of staff who will transfer from the civil service. There will obviously be a reduction in the cost of those staff to the central civil service fund that resources the salary and other costs of civil servants. That fund will decrease and the money will be allocated across to the new agency, so that element would not be new or additional funding; it would be a different budget treatment of existing funding.

**The Convener:** I think that Sylvia Jackson's question was also about whether the increase in the integrated transport fund from £159 million in 2003-04 to £218 million in 2004-05 was a genuine increase or whether any of that money has transferred from other budget lines.

**Nicol Stephen:** My understanding is that that is a genuine increase. Compared with the figures that were in front of you last year, the increase is an extra £25.7 million in 2004-05 and an extra £32 million in 2005-06. Those are the additional allocations beyond the 2003-04 budget process.

**The Convener:** I believe that a couple of funds, one of which was the public transport fund, were drawn together in last year's budget to form the new integrated transport fund.

**Nicol Stephen:** That is right. The public transport fund and our on-going commitments towards it are now part of the integrated transport fund. This is the second year in which the funds have been merged. In fairness, I should make it clear that the only additional expenditure that we are announcing is the extra £25.7 million and the extra £32 million. Only a small amount of that additional allocation would be required for the establishment of the agency. There would still be a significant amount of funding for the other partnership agreement commitments.

A couple of weeks ago, we announced the detail of the additional funding in relation to one partnership agreement commitment, which is the introduction of 20mph zones and other safety measures around our schools. We have allocated £5 million before the end of 2003-04 to local authorities, which is to be spent as wisely and sensibly as possible. In each of the following two financial years, we have allocated £11 million.

**Mr Welsh:** Has funding the national transport authority from the integrated transport fund affected any other items proposed in that fund?

**Nicol Stephen:** No it has not, for the reason that I have just given you, which is that we have made additional provision of the £25.7 million and the £32 million. That means that we can fund not only the new agency but additional commitments as well.

**Mr Welsh:** How have the objectives and priorities outlined in the budget influenced your spending commitments? Can you highlight one or two specific examples where spending has been changed to support them?

**Nicol Stephen:** The clearest example is to do with the 20mph zones that I have just mentioned. We are committed to extending dramatically the number of 20mph zones around our schools. We highlighted that commitment in the partnership agreement and have allocated additional funding of £5 million this year and £11 million for each of the next two financial years, which comes to £27 million in total. Given that each scheme will cost between £10,000 and £25,000, our investment means that we will be able to introduce a significant number of 20mph zones.

We are asking local authorities to report back to us on how the money is spent, how many schemes they have set up, the nature of the most successful schemes and the areas in which they have met difficulty. We appreciate that it might be difficult simply to introduce 20mph zones outside schools that are on a dual carriageway or a trunk road with a 60mph limit and we want to know about those situations so that we can think about how to introduce measures that are appropriate to those schools. The programme is on-going and will require further funding in future years, but we believe that significant progress can be made.

As for our new commitments, I have referred to the funding that has been allocated to the integrated transport fund. It is fair to say that some of the partnership agreement priorities will be funded from the contingency or the central reserve. However, we are not yet in a position to make detailed announcements on that, except to say that all the funding commitments that we make and the priorities that we identify in the partnership agreement can and will be funded. Clearly, however, the Skye bridge tolls are a sensitive issue and we are in the middle of commercially confidential negotiations. We have not yet reached an agreement and do not know what funding commitment will be agreed. We have not identified a clear figure in the budget for the obvious reason that that would set the benchmark for the negotiations.

We have said that we will fund the ScotRail franchise to maintain at least the existing level of ScotRail services and that when new services are introduced—we have proposed some significant new investments—we will bring those services into the ScotRail franchise. We have allocated a figure in the budget based on current expenditure. We are tendering for the ScotRail franchise and do not know what the tenders will be, but we have made provision to ensure that we can deliver the franchise.

I could go through the various commitments that we have made and the projects that we have agreed, such as the airport links, the Borders rail link and the Airdrie to Bathgate line. I reassure members that all those commitments have been costed—officials can confirm that. Obviously, they have been costed on the best estimates of current expenditure and we do not have certain figures in every case. On those estimates, we can deliver all the partnership agreement commitments that members know about.

**Mr Welsh:** Are some of the commitments out to tender? How far advanced are the Larkhall to Milngavie line reopening and the Airdrie to Bathgate railway?

**Nicol Stephen:** Different rail projects are at different stages. The private bill for the Stirling-Alloa-Kinross line is making progress through the Parliament. The private bill process for the Waverley line—the Borders rail link—has just started. For a number of projects, we have cost estimates to a high level of detail—the sort of level that Network Rail requires if we are to proceed. However, all the projects must be subject to the parliamentary process, which may take some time. It is important that we all do what we can to speed that process, but certain steps require to be taken for us to deliver big new projects. In this country, we have not done such projects for decades. It is important that we move as quickly as possible to deliver them, but the funding is in place to enable that to happen.

**Mr Welsh:** I note that there is no objective target or priority relating to the stabilisation or reduction of road traffic. Has the Executive dropped the target in the transport delivery report? If not, how has expenditure been tailored to meet the targets that the TDR sets?

**Nicol Stephen:** The target to which Mr Welsh refers has not been dropped. We all recognise that it is ambitious. We are making a significant shift in investment towards public transport—by 2006, 70 per cent of transport funding will be targeted at public transport. We are doing that as part of our commitment to meeting the target on road traffic. That is why there is such a significant number of major new rail projects and why we are so committed to supporting the bus industry and

extending concessionary fare schemes for the elderly, the disabled and young people. We have never had such an ambitious programme of investment in public transport. That is essential if we are to make progress towards meeting the target.

**The Convener:** One criticism of the target is not so much that it is aspirational and challenging, but that it is a 20-year target. The target was set in about 2001. It is probably safe to say that come 2021 you will not be the Minister for Transport—I am sure that by then you will have moved on to other duties. What staging post does the Executive have for judging whether it is making progress towards achieving the objective set in the transport delivery report?

16:15

**Nicol Stephen:** On the first point, time will tell. At the moment, as I have been in the job for only a matter of months, I would be pleased if I were to continue in it for a reasonable period. I would be delighted to be the Minister for Transport who opens some of the projects and inaugurates some of the schemes whose progress I began.

On Andrew Welsh's question, the one important project that is currently out to tender is the Larkhall to Milngavie line. We expect the tenders to be submitted within the next few weeks. That is particularly important, because the project had to go through an approval process and, if we do not get moving with it, the approval could run out. It is important that we continue to move as quickly as possible.

On the convener's general point, I draw a comparison with the bus industry. We have seen decades of decline in the number of passengers using buses every year. Over the past couple of years, that decline has stopped and we have seen expansion. For the whole of Scotland, there has been a 1 per cent increase in bus travel. That might not seem significant, but it is important. We are getting reports of a 5 per cent or 6 per cent increase in travel by bus in some of Scotland's cities. As the bus is the most important element of public transport in Scotland—as in most nations—that turnaround is crucial if we are to meet our targets. We must introduce more bus priority measures and more park-and-ride schemes and we must continue the growth in the use of buses.

We must also realise the rail industry's potential. The committee will know about the congestion on our rail network, particularly at peak periods. The fact that there is congestion shows real demand for those services. There could be tremendous growth on Scotland's railways. We must invest in new trains, longer platforms, new lines and improved services.

That will all help public transport to expand. That is how we will tackle the target on congestion. It is a big commitment. Car use is still increasing, but we need to make a heavy, up-front commitment to public transport if levels of car use are to stabilise and if we are then to make inroads into and reduce those levels to the figures of the past few years.

**The Convener:** I appreciate what you say on the areas in which the Executive expects to be able to address the issues. Without asking you to reply again, I re-emphasise the point that the Executive might want to consider some form of indicators of progress towards the target over the years. That would be useful to the committee and to successor committees for judging whether investment in public transport is having the desired effect or whether other policy measures are needed to achieve the Executive's long-term aims.

**Nicol Stephen:** I understand exactly what you suggest.

**Mr McFee:** For objective 3, which is

"To support sustainable development by promoting more efficient transport networks",

there are two targets. One is

"To increase rail passenger journeys on the Scottish rail network by a further 5% by 2006."

The second one, target 7, is

"To increase local bus journeys by 5% by 2006."

I listened carefully to what you said about longer platforms, new lines, park-and-ride schemes and so on. How will you achieve those targets when there is no specific budget allocation for them? Why is there no base year from which the growth will be measured?

**Nicol Stephen:** The second question is a good one. There should be clear and consistent base years for the targets. I will come back to you on that. I hope that there will be an opportunity outside the budget process to return to such issues. There should be greater clarity on that.

Figures show that we are achieving growth. Some of the figures on the rail industry have been affected by the rail strike, for example, but there is clear evidence of growth over time in the number of ScotRail network passengers. From a base year of 2000-01, the number of bus journeys rose from 435 million to 441 million in 2001-02, which is an increase of 1.4 per cent. If we can continue with that momentum, we can achieve the target of 5 per cent growth by 2006. I am confident that those targets can be achieved, but I would like to update them while giving the committee greater clarity about base years and the number of journeys and of passengers that will be required to achieve the targets by 2006.

**The Convener:** If the minister is to write to us about that in due course, it would probably be useful also to have an indication of the extra capacity that will be generated by the agreement between the Executive and the railway industry about new trains, which will become available shortly. I suspect that that will be a significant factor in how the Executive intends to deliver that part of the target. It would be useful to have more information about the impact of that on capacity at peak times.

**Nicol Stephen:** Absolutely.

**Mr McFee:** Quantifying that would be useful. It is clear that a baseline from which to start would be useful to everybody. Will this year, last year or 2000-01 be the baseline? I presume that when targets were set, an indication was given of where to measure from.

Is it accepted that a specific budget will not be created to drive the 5 per cent increases in the numbers of bus journeys and rail passenger journeys? I accept that items might be wrapped in other parts of the budget, but it would be useful for the committee to have more detail on how the Executive intends to achieve those increases.

**Nicol Stephen:** I undertake to provide that information. I am reasonably sure that the base year for the bus commitment is 2000-01, but I have in front of me two potential base years for rail passenger journeys, which gives me some concern about providing an accurate answer.

**Mr McFee:** Which is the better year?

**Nicol Stephen:** It would be unfortunate to have—as I think we do—different base years for two similar targets for bus journeys and rail journeys. We should update and review that to create a consistent approach. I give an undertaking to Bruce McFee and the rest of the committee that I will do that.

**The Convener:** Iain Smith and Sylvia Jackson both want to speak. Do your points follow on from the discussion or are they different?

**Iain Smith:** My questions are probably on a different issue, but I am concerned about the time.

**The Convener:** I recognise that Iain Smith has other commitments, so I will allow him to ask questions before he rushes away.

**Iain Smith:** My questions extend the rail issue. I broadly welcome the budget. In particular, I welcome the funding for 20mph zones outside schools, which I have wanted in my area, and the overall increase in public transport investment. However, I am concerned about what is not in the budget. The Strategic Rail Authority and Network Rail are making noises about reducing maintenance on some lines and defining rural

lines as anything north of Edinburgh, although not all those lines strike me as being rural. Might that have a knock-on effect on the Executive's budget? Will we have to pick up some of the pieces or subsidise the ScotRail franchise more to deal with network reliability?

**Nicol Stephen:** The Scottish Executive, too, is extremely concerned about that issue. We have responsibility for funding and specifying the ScotRail franchise. We want to introduce the improvements that are identified in the budget document and the partnership agreement. That will involve a significant investment by the Executive. If that investment is not reinforced by similar improvements to the maintenance of the rail network, we could have problems such as speed restrictions on sections of line where maintenance is required. Those speed restrictions could have a direct impact on the frequency of the services.

We have made those concerns known to the SRA. This week, I repeated them to Richard Bowker and asked for his assurance that the SRA was not proposing any maintenance that would have an adverse impact on the ScotRail franchise. He gave me that assurance, but we will remain vigilant in relation to maintenance proposals.

We will also be watching carefully the level of investment that the SRA and Network Rail are committing to our main intercity lines, which are the SRA's top priority, and to those lines that are being given a lower priority. I envision that there could be problems with our more rural lines, which have suffered from underinvestment in the past. We have to keep a watchful eye on that. Richard Bowker emphasised that he was committed to ensuring that maintenance of the rail network throughout the United Kingdom improved significantly during the next few years. He was talking about relative levels of improvement between the top priority lines and those that are at a secondary level, although all lines will be improved. We have to ensure that that is what is delivered.

**The Convener:** The committee intends to take evidence from you and the SRA on that issue. Your remarks are reassuring, but we will cover that issue more fully in due course.

**Paul Martin:** Minister, you referred to the funding that is being set aside for the purpose of the franchise. Can you elaborate on that? I appreciate that there are commercial issues that prevent you from divulging a particular amount. If you receive higher bids for the franchise and the subsidy is required to increase, from what other budget heading will that funding come?

**The Convener:** Minister, we all fully acknowledge that, just as you did not want to

divulge specific figures from the negotiations over the Skye bridge, you will not want to divulge precise figures on this issue.

**Nicol Stephen:** The answer is the same as the previous one that I gave. Funding is being made available for the partnership agreements and we are determined to deliver on those policy commitments. We have made some provision for additional funding within the transport budget.

We have known for some time that the ScotRail franchise was due to be re-tendered. There is a contingency fund, but it would be wrong of me to comment on whether our expectations in relation to ScotRail are for costs to be less or more than the current estimates. That is why we have gone out of our way to be absolutely neutral on the figure in the budget and to maintain it at the current level.

The ScotRail franchise figure and the grant to Strathclyde Passenger Transport Authority in table 8.04 on page 138 of the budget document should be added together, because they are both part of the funded rail network. You could probably accuse the figure of £210.63 million of spurious accuracy, because that is £210.63 million of current estimated expenditure rolled forward into future years, to enable us to be absolutely neutral and not to send out any indicators to the ScotRail bidders.

To be honest, similar problems arise when we give funding costs for any transport project. When we talk about a cost of £500 million or £37 million or whatever the sum may be, that puts a figure into the minds of contractors who are bidding. In this instance, the only figure that we wish to have in the minds of the three bidders for the ScotRail franchise is £210 million, which is the current cost of the ScotRail franchise.

16:30

**Paul Martin:** Convener, I would like to develop that point briefly. Hypothetically, if the figure comes in much higher than originally expected, the Executive will face serious challenges over the partnership commitments. That would become an issue.

**Nicol Stephen:** Obviously, we discuss all the issues. At times it is possible to spend more money than was estimated on a particular issue or less money than was estimated on a particular issue. We strive for the latter, but we realise that that is not always possible, particularly in relation to transport projects. For a number of transport projects, the cost estimates go up over time. Despite that, we are determined to deliver on the scale of investment that we are speaking about, to ensure that we deliver on all the projects. One of our core commitments is to the ScotRail franchise.

If the situation that you describe arose, we would have to examine it in the context of the transport budget and the contingency or central funding. That is the simple answer.

**The Convener:** Sylvia, I think that I cut you off earlier.

**Dr Jackson:** That is fine. I realise that time is of the essence, so I will ask three quick questions. First, can you give us an idea of when you will be clearer about the SRA and Network Rail investment? I remember that the issue was not just the Fife matter that Iain Smith raised, but that a map in one of the papers indicated that even the line to Stirling would face, in your words, lower investment. A lot of people are worried. We will examine the situation in more detail later, but can you tell us when we will know about that investment, what procedures are in place and what meetings will be held with the UK Government to pursue the issue?

Secondly, I take on board what you said about the Stirling to Dunfermline line, and that you do not know exactly how quickly matters are progressing, but when will you have an idea of the time frame for the various priorities that you have listed? Will you be able to produce for us at least a rough idea of when the various priorities will come on stream?

Thirdly, what discussions have you had with other departments over the past two weeks? From other people who gave evidence, we heard about the need to put in place a lot more horizontal structures between various departments. There is considerable overlap between what you are doing and the social inclusion and social justice agenda.

**Nicol Stephen:** On the first point, the SRA's proposals are still in draft form, but they have been updated; I think that they were made public on Friday last week, so we know a bit more about them. The SRA has made some changes that are of benefit, in relation, for example, to connections with the major ferry terminals and to important freight lines in Scotland, so there are some improvements.

I do not think that I ever said that the line to Stirling would receive lower levels of investment, but I may well have said that that line would be a lower priority because the SRA is grading the priority that it gives to individual lines.

Your next point—

**Dr Jackson:** Can I come back to that point? Other MSPs must have written to you, in the same way as I have done, to try to get reassurance about the lower priority lines. As yet, I have not received an answer. When do you think you will reply to me?

**Nicol Stephen:** I should be in a position to write to you very soon. I will find out where your letter is

in the system and chase the matter up. There is no reason why you should not get a full reply in relation to the line to Stirling. I will do that over the next few days.

Was your next point about timetables?

**Dr Jackson:** It was about the time frame for the various priorities.

**Nicol Stephen:** We have a timeline for each of the priorities. For example, Jonathan Pryce has just handed me a note in relation to the private bill on the Stirling-Alloa-Kinross line, which is being considered by the Parliament. Royal assent for the bill is shown as being given between April and June 2004, construction will begin in autumn 2004 and the line will be open to services in winter 2005-06. We have that sort of detail for every project that we are looking at. The estimates have to be kept under regular review, but I would be happy to ensure that information at that level of detail is available to committee members.

Your third point, on the sort of links that we have with other departments, is a good one. Other departments have made contributions to the budget document. That is reflected, for example, in some of the information that is provided in the Enterprise, Transport and Lifelong Learning Department budget on equality issues. We have close links with other departments on issues such as communities, social justice, economic development and the environment.

My answer to your question is that the links are not good enough and we need to do more. It is all too easy for ministers to become focused on their departmental portfolio and their particular priorities and not to recognise the importance of those links. That is a challenge for all of us. No doubt the same thing happens from time to time in parliamentary committees—we become focused on our own work and our own responsibilities, but we should keep in mind the bigger picture, the bigger vision and the wider responsibilities that we all have. I take that point on board and commit to trying to do something more about it.

**The Convener:** Sylvia Jackson asked about the timelines for some of the projects; it would probably be useful to get such detailed information on all the major projects. I am aware of a number of the projects, having been on the Transport and the Environment Committee in the previous session, but current committee members who were not on that committee may benefit from that information.

**Nicol Stephen:** I will ensure that that information is forwarded to the committee.

**Mr Welsh:** I noticed the attempt in the budget to spend less rather than more. One specific point bothers me. There is a 24 per cent real-terms

reduction in the lifeline air services subsidy budget line from 2003 to 2006. Can you explain that reduction?

**Nicol Stephen:** I, too, asked about that statistic. It seems to be based on an estimate, which appears to have been founded on wrong information or at least information that is now out of date. It is highly unlikely that the figure will go down in that way. In other specific budget lines, there are reductions that are based on the best estimates of the Enterprise, Transport and Lifelong Learning Department. An example of that is the spending on independent piers and harbours; when I asked about that reduction, the reply was that the expectation is that there will be a fall in demand in 2005-06. However, I do not expect that that will be the case for lifeline air services subsidy.

**The Convener:** The figure may need to be read alongside the figure for support for Highlands and Islands Airports Ltd. I note from table 8.06 that such support increases over the three-year period.

**Mr Welsh:** I simply wondered why the reduction was so striking.

**Nicol Stephen:** To be frank, earlier today I asked exactly the same question. Rather than give members the answer that was given to me, I will check the matter and add it to the issues on which I will write to the committee, so that we can be absolutely certain. The officials who are responsible for that budget line are not alongside me at the moment, but I understand that we are likely to have to continue spending at a higher level. In future years, an increase in the budget of £200,000 or £300,000 may be required.

**Mr Welsh:** This is a draft, so it can be redrafted.

**Nicol Stephen:** Indeed.

**The Convener:** I would like to ask two final questions before letting you go—probably too late for the meeting that you planned to attend.

One of the Executive's main targets for transport is to transfer freight miles from road to rail and water. That aspiration would seem to be undermined somewhat by Royal Mail's recent decision to cease transporting mail by rail; I understand that the service ended last week. If Royal Mail is responsive to anyone, as a publicly owned company, it is to the relevant UK minister rather than to you, but I believe that you have made representations on the issue. Are further representations being made? Royal Mail has been one of the longest-term users of rail freight transport and it seems unfortunate, to say the least, that a publicly owned company should move in the reverse direction from both UK Government and Scottish Executive transport policy.

**Nicol Stephen:** Yesterday I met representatives of Royal Mail to discuss this issue. I intend to make representations on the matter to Alistair Darling and the UK Government. I know how much concern exists about the issue of rail freight, on which we have made good progress. I could cite figures relating to the targets for shifting freight from lorries to the railways. We have had great success with the freight facilities grant.

Clearly, if an organisation as important as Royal Mail switches from the railways to the roads, that is a matter of great concern. It is bad for the environment and congestion and could be bad for jobs in Scotland. It has been made clear to me that although the immediate decisions that Royal Mail has taken are very unlikely to be reversed, there is an opportunity to lobby the UK Government and Royal Mail about the company's future use of the railways. A very substantial proportion of bulk and second-class mail could continue to be delivered by rail, provided that the right structure was put in place. There continue to be strong reasons for the Scottish Executive and the Scottish Parliament to make representations on the issue.

If we can keep up the pressure, we have everything to gain—I do not think that this is a lost cause. When such a significant switch from rail to the roads takes place, it acts as a powerful signal to everyone in Scotland, especially businesses. We must not allow that to pass unnoticed or give up the strong efforts that we are all making to ensure that Royal Mail makes significant use of the rail network in the future.

If there are things that the UK Government and the Scottish Executive can do to influence Royal Mail—which we must remember is an independent company, albeit one in which the UK Government owns a significant number of shares—we must continue to make every effort to do them. We need to ensure that more of our mail and our parcels are carried by rail. As I said, my discussions with Royal Mail do not lead me to believe that all is lost, although it might take some time to turn the situation round. Our efforts continue to be important.

**The Convener:** Organisations that promote greater emphasis on sustainability in transport sometimes criticise the Executive's programmes on the basis that much of that work is weighted towards big infrastructure projects, such as rail and motorway projects. Those organisations believe that more emphasis should be placed on initiatives that are perhaps less glamorous, such as the promotion of walking and cycling. Do you feel that that is a fair criticism? If so, what will you do to ensure that it becomes an unfair criticism?

16:45

**Nicol Stephen:** We are committing more resources than ever to the promotion of cycling and walking. We have established the cycling Scotland initiative and helped to fund Scotland's extensive cycle path network, which we strongly support. We are making progress in that regard, but we are starting from a low base compared with EU nations that have a historical or cultural commitment to cycling or with flat countries such as Holland, where the development of cycling is more straightforward than it is in the Highlands of Scotland.

I accept that, compared with a nation such as France, we must make significant strides in terms of commitment to cycling. I defend our current commitment, but I take the point that we should not focus solely on the large infrastructure projects and that we have to do more to support communities and passengers in rural areas who do not have access to cars and bus services and help them overcome the transport difficulties that they face. We must also do more to encourage young people to walk to school and get involved in sports that involve transport—if a young person takes up cycling as a sport, they are more likely to cycle to work throughout their life.

We must do more in relation to smaller-scale projects. More can be done with the significant funding that is available, particularly through the integrated transport fund and the rural transport fund, with which we have already done some innovative work. More can be done to fill the gap between the availability of buses and trains and the journey from people's front doors to the bus or train station. In that regard, the rural transport fund has been supporting dial-a-ride services and other community services, but they are not available in all parts of Scotland. We are talking about a big mix of different lower-level projects that are exceedingly important if we are to deliver quality public transport services to everyone in Scotland. That must be our challenge.

**The Convener:** I thank the minister very much for his evidence. [*Interruption.*] I do not know whether Jonathan Pryce has just supplied you with an excellent response to that last question, but you can throw it in if you want to.

**Nicol Stephen:** His note says that at least three of the officials who are present are regular cyclists.

**The Convener:** Excellent. I congratulate the Scottish Executive on that.

**Nicol Stephen:** I will not ask them to raise their hands, but you have that guarantee.

**The Convener:** I again thank the minister and the Scottish Executive officials who have supported him for their evidence.

16:50

*Meeting suspended.*

16:51

*On resuming—*

**The Convener:** I begin this part of the meeting with an apology to the minister. We have had an intensive evidence-taking session on the 2004-05 budget, which must be your favourite subject. It might well be to your benefit that we have taken so long with the other witnesses, because members might now be so fatigued that they will not be able to scrutinise your evidence as thoroughly as they might have wished. I am sure that you are capable of responding in either case.

With that, I welcome to the meeting Andy Kerr, the Minister for Finance and Public Services. I also welcome Scottish Executive officials Christie Smith and Colin Cummins, who will support the minister. Before we go to questions, I will give the minister the opportunity to make some opening remarks. However, I appreciate that, given the late hour, you might want to restrain them.

**The Minister for Finance and Public Services (Mr Andy Kerr):** I will circulate some handouts, which members might find useful, about the context of my remarks.

I thank the committee for giving me the chance to come along and talk about the draft 2004-05 budget. Having heard some of the previous evidence-taking session, I think that it might be helpful if I clarify the process. We are in the second year of a three-year settlement. In September 2002, we announced the outcome of the spending review for local government in total and in December 2002, we announced each local authority's allocation for the three years from 2003-04 to the end of 2005-06. The draft budget contains local government allocations for 2004-05 and consists of figures that were announced last year as well as any additions or transfer since the partnership agreement was introduced. The handout that I have circulated attempts to set out some information about the planning cycle within the Executive.

The overall figure includes additional provision for free school meals as a result of the change to the new tax credit system; firefighters' pay; 20mph speed limits around schools; and more police officers. It also takes into account various timing adjustments for transfers subsequent to spending review 2002 including, for instance, a transfer-in for educational psychologists and a transfer-out for the new Scottish public services ombudsman service. I know that that has been the subject of some discussion today. The need for such adjustments will always arise in year, and we need to take cognisance of that. The budget is a

snapshot that is taken at a particular point in time. It is there to inform, but it is obvious that we need to make changes as policies develop and spending commitments move, and we take that into account.

We have made a broad announcement of the spending review, giving our spending plans, but the process does not stop there. Policy plays its part and decisions about improvements that are best left to local authorities are also taken on board. That way of doing things works with local government. We discuss those matters in great detail with local authorities and I do not think that they would want it any other way. It would be a strange world if the budget were a tablet of stone with the figures etched in, which did not change throughout the financial year despite pressures, policy developments and other commitments. We do not want local authorities to wait until the next spending review before we can make those improvements to services, and I am sure that they would not want us to wait until then either.

In relation to non-domestic rates provision, the allocations that we have managed to fund through the partnership agreement are delivered partly by the higher-than-expected income from business rates. I argue that that is a consequence of prudent budgeting. The committee's previous discussions about that were interesting. If incomes from non-domestic rates come in lower than projected, the Executive carries the can, so we need to be prudent about how we project over the five-year cycle. We must ensure that those projections are as accurate as possible. The business rates income is a saving to that line in the budget, so we can deploy those resources as we consider it appropriate. Some of that resource will go, as ever, to our local authority partners.

The budget includes the revenue grant, which enables local authorities to carry on delivering the services on which many of our communities depend. It also includes allocations for new priorities, which were carried in the spending review; the priorities that were identified in the partnership are also funded through that. Some of those issues are raised in the second slide in the handout, which concerns our continuing commitments regarding policies such as free personal care, teachers' pay, concessionary travel, police officers, quality of life and all the other elements that have been baselined into our calculations.

The targets and objectives for those are contained in the relevant portfolio chapters of the budget document. I appreciate that there is a spread of local government spend throughout the budget, but we can draw that back together through our discussions with other ministers. The third slide shows some of the targets that we

attach to other portfolios, but which are delivered through local authorities. On education, target 6 on page 13 of the summary draft budget document refers to the McCrone settlement and target 7 mentions our commitment to having a record number of teachers by 2007. Local authorities will ultimately be the main delivery mechanism for those services, but the targets are, quite rightly, shown as education targets because that is where they emanate from.

Other chapters contain other objectives and targets that are delivered jointly and in partnership with local government, and we attempt to reflect every aspect of local government involvement across the budget through our chapter on finance and public services, which covers local government. To do otherwise and to include in that section all aspects that are related to local government would make the document pretty unwieldy and difficult to deal with, and I am not sure what it would bring in terms of interrogation and understanding.

The budget sets out the resources that are allocated to local authorities to invest in improving services through better schools, roads and other initiatives by using all the important assets that are available to them. That can be achieved by a mixture of direct grant and consent to borrow for capital expenditure, and those figures presently limit local authority borrowing and spending. As members will be aware, however, local authorities will be able to borrow and spend more from 1 April if they can demonstrate that they can afford to do so. That will happen through the much-welcomed prudential framework, which will come into effect from April 2004. I believe that that will support better investment decisions and longer-term planning and will increase levels of investment in our local infrastructure. I am sure that local authorities will rise to that challenge as time goes by.

We all want improvements in the delivery of our public services. The Executive is no different from local government in supporting that overall objective and we want year-on-year improvement. The objectives and targets in the finance and public services chapter, which are detailed on the fourth handout, reflect how we seek to work in partnership with local authorities to assist them in that process.

Representatives of local government, including today's witnesses, welcome the stability of the three-year settlement, the new framework for local authority capital investment, the prudential borrowing regime, community planning measures and the power to advance well-being. I believe strongly that all those Executive policy initiatives help to deliver better public services in local communities.

I will quickly mention a couple of useful points. The proportion of ring fencing in the Executive's budget for local government is a hardy annual issue for us. Of the resource that is set out in the finance and public services section, 8 per cent is ring fenced, of which 75 per cent is for the police grant. I have not heard any serious call for a change in the way in which we deal with the police specific grant.

17:00

Other resources are allocated for specific purposes, such as the growth fund. We have an on-going discussion with COSLA about whether that money is ring fenced—I am not sure about that. There are legitimate reasons for hypothecating certain resources where we have a shared central and local objective. That will always be the case, but the Government must seek to hypothecate resources only when there is a good and justifiable reason for doing so. Overall, we allow local authorities the flexibility to deliver locally on what is best for their communities. We are mindful that authorities must respond to what they see as the local priorities.

Many local authorities welcomed the funding mechanism and broad remit of the quality-of-life initiative and responded extremely positively to it. The joint effort that was involved satisfied communities, local authorities and the Executive. We will keep that model in mind as we seek to find other ways of ensuring that resources are distributed in such a way as to make things happen. As I said, we continue to discuss ring fencing with COSLA, but the discussions are more about definition than substance. We must continue to work with COSLA on that.

The committee is particularly interested in how we make provision for deprivation in the budget settlement. Although the vast majority of local authority services are provided for the general population, that is sometimes more difficult in relation to deprived areas, in which it is more difficult to deliver services, or in which demand is higher in comparison with that in other areas. We seek to take cognisance of that issue in the distribution formula. Thirteen assessments relate directly to deprivation and we seek to bend the spend in that direction through those assessments and the distribution model.

Other mechanisms are available to us, such as the better neighbourhood services fund. The resources for social inclusion partnerships form a large amount that is focused on areas with high levels of deprivation. We remain in constant dialogue with COSLA about how to distribute resources and how to work together to achieve the most efficient spend.

Local authorities argue correctly that they deserve and need more money and I do not disagree with some of those arguments, but the Executive must decide how best to allocate resources to the competing priorities. I believe that local authorities are getting a good deal—they are maintaining their recent historic share of the Executive's budget, despite the fact that the budget has increased dramatically.

The fifth slide shows some policy innovations that the Executive seeks to implement in partnership with local government to make local government's ability to deliver for communities more effective. Those include three-year budgets; the abolition of expenditure guidelines; the prudential borrowing regime; the introduction of best value and the ending of compulsory competitive tendering; the power to advance well-being; and the community planning and quality-of-life measures. All those policies are ways by which the Executive releases the potential of local government to deliver for communities and increases our ability to resource large parts of local government expenditure.

**Mr McFee:** I will begin the questioning with two old chestnuts. What do you take to be the base budget for local government and how do you arrive at the definition and costing of the base budget? Following on from that, the committee has heard evidence on the publication of a consolidated local government budget and the Local Government Committee in the first session supported that idea. What progress has been made on that issue?

**Mr Kerr:** On how we budget, we base our calculations for following years on the previous years and take account of new initiatives or new pressures in the system. You heard Corrie McChord talking about our ability to assist with pay and price inflation—for example, we assisted local government with the rise in employers' national insurance contributions. We start with the history of expenditure in local government and add anything new that the Executive has committed local government to delivering, which we fully fund, or any recognised pressures within the system, such as pay and price inflation or a rise in national insurance. We take into account the previous spend plus support and resources that are new on the block.

On the latter part of your question, we are in discussion with COSLA on the local government budget. The devil is in the detail with such matters. We have a continuing dialogue with local authorities. We have opened up communications and are simply working through the mechanics of that. I have nothing firm to report other than that.

**Mr McFee:** What, then, are the new responsibilities in the 2004-05 AEF and how are

they costed? What percentage of the new responsibilities or burdens for local authorities is the Executive meeting? Is it meeting all the costs or does the percentage vary from burden to burden? Will you identify each responsibility separately in the AEF?

**Mr Kerr:** I caution against using the term “burden”, because concessionary travel or long-term care for the elderly in our community, or nursery places for our children as they start out in life are not burdens; they are pleasing innovations in service delivery. We need to change the language, as such matters are about policy initiatives and making good progress.

We have had a series of discussions with COSLA and local government about the total resource required and the distribution formula by which we seek to distribute that resource. In recent times, we had long engagements with local authorities and COSLA about that. We are now entering into dialogue with local authorities about how best to deliver the new initiatives in the partnership agreement, what resources are required for them and how we distribute those resources effectively throughout Scotland. In my opening statement I mentioned some of those initiatives, such as more police, 20mph zones around our schools and the increase in the number of teachers to 53,000 by 2007.

We spend a lot of time labouring over the distribution formula. As yet, and as the committee knows, it is still in use, because we cannot find a better way of making the distribution. There will always be friction over distribution, with views such as those expressed by rural areas about our taking cognisance of rurality, and issues such as deprivation will be mentioned. We go into dialogue about how to deliver a new initiative through local government—if local government is the partner with which we are delivering that initiative—to ensure that it is fully resourced, which we have done in the past. We also have dialogue about which distribution formula or mechanism we will use.

I invite Christie Smith or Colin Cummins to add to that, as they have been involved in past discussions and will be involved in future ones.

**Christie Smith (Scottish Executive Finance and Central Services Department):** I do not think that the budget contains any new burdens in the old sense of the term—an action or initiative of central Government that imposes costs on local authorities that they cannot get out of, which is the sense with which we are familiar. There are a number of new initiatives and proposals for improved services, such as those that the minister mentioned, and some are open ended. For example, there is an allocation for 20mph zones, but there is no obligation to create a fixed number

of such zones. It is up to local authorities to use their discretion on how they use that money.

**Mr McFee:** I want to clarify whether you are saying that you expect the Scottish Executive to finance 100 per cent of any new responsibilities that you will require local government to exercise.

**Mr Kerr:** The presumption is that any new policy that is thought up by the Executive, on our initiative, will be fully funded. That is what we do and what we will continue to do.

**Mr McFee:** That will be detailed separately in AEF.

**Mr Kerr:** It will come out as a follow-through when we report back on what has been spent. I have said that the budget will change throughout the year, depending on how policy initiatives roll out. That will be reflected in the overall figures through AEF.

**Christie Smith:** The circular describing what is in the budget settlement that we issue to local authorities every year usually includes a list of any such items, showing the money that has been put in and the distribution for each local authority. If anything happens between circulars, a separate letter that identifies the additional resources is sent to local authorities.

**The Convener:** A recent example of an area in which that took place was the introduction of the concessionary travel scheme for elderly people. In addition to the initial resource allocation for the policy, the Executive kept back a contingency fund so that the accuracy of the initial allocation could be reassessed after implementation of the policy. In future, do you expect that you will continue with the innovation of revisiting resource allocation after a policy’s implementation to examine whether it has been sufficient?

**Mr Kerr:** It is all a question of the rigour that goes into the process to establish a figure. We must take cognisance of whether a service is demand led, which the concessionary travel scheme for the elderly obviously was. According to some of the stories that we heard at the time, every old-age pensioner was out travelling to Saltcoats every day. Through discussion, we sought to ensure that we put in a figure that we thought was reasonable to support the policy initiative.

However, because the service was demand led and because there was a lot of concern, we sought to have a reserve so that, if there was evidence of usage that was above and beyond what we had expected, we would be able to deal with it. That applies to all our policies, although we would not expect the same thing to happen with every new local authority service that we innovate, because some services are not as demand led as

the concessionary travel scheme was. We will continue to use that model, where appropriate.

**The Convener:** I want to move on to another area. Given that you were listening to the evidence, you will have heard that we asked COSLA about allowing for inflationary pressures. How much allowance has the Executive made within the budget for inflationary pressures, such as wage settlements? Does the Executive revisit that issue on an on-going basis? If wage inflation were to outstrip the inflationary allowance, that would be an issue for local government, given its responsibility—which it acknowledged today—to reach reasonable pay agreements in negotiations with staff.

**Mr Kerr:** I heard some of that exchange. Through the spending review process, we say what figures we will put aside to cover pay and price inflation. We allow 2.5 per cent for pay and 1.25 per cent for inflation. Corrie McChord acknowledged that that Government innovation was welcome. I am sure that we can negotiate on the actual numbers. As well as being a significant step forward, that innovation has been designed to keep matters in perspective in relation to pay and price pressures. It is clear that the wider world follows closely the pay settlements in the public sector, especially in the Executive. We must ensure value for money for the Scottish taxpayer through our settlements and we expect that to happen in local government as well.

We set aside an estimate of what we think is reasonable—I gave the figures for that—and the work is done on the basis of the spending review. We project on the basis of the information that is available to us.

**The Convener:** I am conscious that the chancellor's overall target for inflation is 2.5 per cent. Although an allocation for inflation is welcome, if the inflationary element of the settlement that we give local government falls below 2.5 per cent, that allocation is perhaps not sufficient for the genuine inflation that local government experiences, if pay and non-pay elements are taken together.

**Mr Kerr:** There are two aspects to that. As the minister who is responsible for the Scottish block, I suffer from the same problem. We suffer the same pressures within health and other areas that are directly within the Executive's budget.

The problem is not new. Like local government, we need to deal with it, which requires us to take policy-based decisions about what we think are the priorities and about where we need to spend resources. However, I think that we have been relatively generous in taking cognisance of the matter in the previous spending review and continuing that process in this spending review.

Having been in the public sector for many years, I expect local authorities to continue to find out for themselves whether they can make any savings, economies and efficiencies from the system. That is what the Executive does. Our ability to run a tight ship allows us to release resources elsewhere in budgets. To me, that is good government; indeed, it is also good local government and I have been familiar with that approach in my many years in local authorities.

17:15

**Mr Welsh:** As we need traceability and transparency to ensure that there is value for money, it is important that we establish a base budget. Indeed, we have all been searching for such a holy grail. However, when we asked about the base local government budget, you gave us the classic answer: you started from last year and then made adjustments. I acknowledge that budgeting tends to take place at the margins. That said, given the way in which the Scottish Executive sets out its accounts, is it possible to calculate a local government base budget?

**Mr Kerr:** Yes. However, before we embarked on such a project, we would have to agree any definitions with COSLA.

Although I think that we could calculate a base budget, I am not sure about the value of such an exercise. Indeed, I have said as much to COSLA. After all, an attempt to carry through to the present day a historical reflection of what organisations did 10 years ago would mean very little. Various functions have transferred and structures have changed. For example, we would have to take into account the position of the Strathclyde Passenger Transport Authority. Moreover, we have moved from regional local government to single-tier local government and elements such as educational psychologists and the public services ombudsman have moved in and out of the system. There has been so much movement that I am not sure of the value of calculating a base budget. However, COSLA and I continue to discuss the matter.

I have nothing to fear from such an exercise because I believe strongly that, in relative terms, local government has done quite well by us. I acknowledge that local government will always ask for more money; that is its job, just as it is ministers' job to ask for more money for their portfolios. That said, since 1997, local government has maintained its share of the spend in Scotland. Indeed, if we consider the 2005-06 figures, we will see that the budget has increased by nigh on £10 billion, which means that local government has received its share of the extra resources. I tend to look at bigger questions such as whether the authorities are getting their fair share of Executive

resources and a fair crack of the whip, and I think that they are.

As I have said, although I am dubious about the value of the base-budget exercise, I am happy to engage with local government to find out whether we can reach a satisfactory outcome.

**Mr Welsh:** I guess that the value of such an exercise is that we could trace money flows and examine outcomes and outputs. The trouble is that, because the policy has been introduced, services are becoming interrelated, interconnected or integrated but budgets are not. If such an exercise worked, it might be valuable in allowing us to find money flows and then to reach judgments about efficiency, effectiveness and economy.

**Mr Kerr:** I have a degree of sympathy for that view. However, the notes to any document explaining the budget over the past 10 years would read "Note 1: This function has moved; Note 2: This is no longer the responsibility of local government; Note 3: This is now the responsibility of a non-departmental public body; Note 4: That function is now performed by X, Y or Z body" and so on. That is what we would end up with if we did things in the classic way. That said, I take your point that we could work back from the subject on which we are spending money. There might be value in discussing such an approach.

I am always concerned that we do not end up spending so much time trying to sort out the Executive's limited resources. We are talking about deciding how to allocate resources; in this case, we are talking about human resources. Is that the best way of spending our time? However, I am very open about the matter and have been so with COSLA. It is on the agenda. We have discussed the issue on several occasions and will continue to do so.

**Mr Welsh:** I suppose that there is no point in pulling up the plant every five minutes to look at its roots.

I seek specific information on a slightly different topic. You mentioned that your strategy for allowing flexibility to meet circumstances as and when they occur centred on in-year adjustments.

Page 8 of the draft budget says:

"some money has been left unallocated at present".

How much is "some money"? I notice that the end-year flexibility total is £441 million and that £180 million relates to housing stock transfer, and contingencies and reserves are additional to that. Could you give us an idea of the figures?

**Mr Kerr:** With due respect, I say no. Many of those figures are held back because we must enter into negotiations in tender processes with

the private sector and into discussions with trade unions about deals and other matters. As I said in a speech in the chamber, EYF—the windfall from the chancellor's redesignation of housing stock transfer debt and from the buoyancy in non-domestic rate income—allows us to hold back money for a purpose. One such purpose that was mentioned this afternoon is the re-letting of the ScotRail franchise, which is essentially a tendering exercise. If we published the resource that we intend to allocate to that for future years, we would declare our hand on what we are willing to pay for the service.

We sought to indicate the resources that will fund partnership agreement commitments fully and we acknowledge that we were fortunate to have the windfall from the chancellor and the NDRI buoyancy. On the horizon are discussions about the Skye bridge, the firefighters' dispute, the ScotRail franchise—that is a big issue—and movements in the transport budget on some of the tendering processes in which we are involved and about which Nicol Stephen spoke to the committee. I have held money back for those purposes. Ministers will report back to Parliament as and when those deals are made. I would be concerned about publishing the figures for those portfolio lines, because that would allow anyone to analyse how much money had been set aside for those purposes and to increase or decrease their bid in line with that.

**Mr Welsh:** I understand the prudence behind that but, if I am right, the amounts that are in reserves and contingencies or are unallocated are substantial.

**Mr Kerr:** I was talking about unallocated money. We need to have contingencies to be prudent. For instance, we had to deal with fishing industry issues. That was not budgeted for, but we had a contingency to cover it. The Executive takes action on such matters during the year. We can always argue and disagree about the level for contingencies, but the principle is valuable.

If money for contingencies is not spent, that is reported to Parliament. We are in a four-year session and the spending review process covers three years, which we are in the middle of. Our contingency builds towards the end of the spending review period, because that time is more distant. The insurance policy must be a bit higher because we do not know what is coming down the line.

**Mr McFee:** What overall level of capital investment is assumed to be funded in 2004-05? How does that relate to the investment backlog?

**Mr Kerr:** Christie Smith will pass me the numbers that are in the budget document, so I will deal with your second point, about the investment

backlog, first. The prudential regime in local government and the accounting system in the Executive take cognisance of our assets. The prudential regime requires an asset plan that says what resources will be spent on maintaining assets. In the public sector generally, part of the problem has been that we did not pay due attention to our assets in the past. Through the prudential regime, we will ensure that that is no longer the case.

I cannot put a figure on the investment backlog, but I can say that we will build 300 new schools, which will be funded through the Executive and through PPPs. We have a transport infrastructure project on which we will spend £1 billion by 2005-06. We are putting £1.8 billion into water services. We are also making other investments in Scotland's capital assets and its infrastructure.

In areas where the Executive has direct responsibility, such as the court system, we have set aside resources in the budget to cover our capital plans. For example, we have set aside resources to improve court facilities.

Integral to the prudential regime is an asset-management plan. From that, we will find out exactly how the land lies. I am not absolutely certain that local government fully appreciates its assets, knows what shape they are in and knows what resources are required. That is not a criticism, it is simply a fact.

Page 45 of the summary of the draft budget shows the statistics.

**Christie Smith:** The capital line shows figures of £416 million, £423 million and £433 million. Some other transport investment that will go through local authorities is not included in those figures, which will go up to something more like £500 million when we bring everything together. The figures assume no prudential regime. In other words, we have to base our plans on the existing system. However, when we move to the new system, we would expect the figure to increase. That will be for local authorities to decide.

**Mr McFee:** So, broadly, the figure is £500 million.

**Christie Smith:** As a rough guide, the figure is £500 million a year.

**Mr McFee:** What are your proposals for revenue arrangements under the prudential scheme? What support will you offer local authorities that use the scheme?

**Mr Kerr:** Loan charges will be supported through the Executive. A code of practice has been agreed and published. The code governs the whole process for how we arrive at a final figure in any individual local authority.

**Christie Smith:** In the three-year settlement, we have put money into the revenue grant for local authorities to support borrowing. We will continue to provide that. If local authorities can find ways of supporting more borrowing—either by making savings or by using council tax income—they can do so. However, such borrowing will be for them to support. In each spending review, we will decide how much support to offer for capital investment. We have already done that for next year.

**Mr McFee:** I am sorry—I did not catch parts of that answer. The loan charges that will be supported by the Executive—is that 100 per cent?

**Christie Smith:** It will be up to the level that we have stated in the draft budget. If local authorities decide that they can afford to support more, it will be up to them to support it.

**Mr Kerr:** That is the whole point of the prudential regime.

**Mr McFee:** So loan charges will be supported 100 per cent up to the level that you have mentioned, which will be something like £500 million. If a local authority then decides that it wishes to invest in its properties and assets—and I agree that local authorities have not always been the best managers of assets, probably because of financial restraints—it will require to fund the loan charge element of that entirely from the council tax or its own resources.

**Christie Smith:** If a local authority wants to go beyond what we have supported, it will have to support that by itself.

**Mr McFee:** That support will have to come from the local authority's own resources, which will ultimately come from the council tax. What about the capital repayment element?

**Christie Smith:** Loan charge support also covers capital repayments.

**Mr McFee:** Again, will that be up to the limit that you have specified?

**Christie Smith:** Yes.

**The Convener:** So, local authorities will have access to public sector means of borrowing if they choose to go beyond the level up to which the Executive will provide support.

**Mr Kerr:** Yes, and that will be based on their own fiduciary responsibilities. They will have to ensure that they have revenue to cover the capital repayments.

**The Convener:** Is the code that you mentioned the one produced by the Chartered Institute of Public Finance and Accountancy?

**Mr Kerr:** Indeed.

**Mr Welsh:** In table 0.08 on annual managed expenditure, on page 7 of the draft budget, there are entries for finance and public services. Elements of such expenditure are not readily predictable, as they are demand led. By 2005-06, the table shows that expenditure on finance and public services will be up to £2 billion. Can you explain that?

**Mr Kerr:** NDRI is in there as well. Are you seeking an explanation of how that figure is reached?

**Mr Welsh:** Yes please.

**Mr Kerr:** The non-domestic rate share is in there as well.

**Mr Welsh:** Can you give me a rough idea of how much that would be?

**Christie Smith:** It is most of it—it is £1.6 billion or £1.7 billion or £1.8 billion.

**Mr McFee:** I have one last question. Given the introduction of the prudential borrowing regime, would it be possible to consolidate all the support for capital expenditure, including level-playing-field financing, so that the support for capital expenditure actually followed projects, as opposed to what the current method of financing projects does?

17:30

**Mr Kerr:** Public-private partnerships, which are always the subject of interesting discussions, represent about 13 per cent of our capital investment. Local authorities have a range of delivery choices. On traditional funding routes, we have increased local authority capital by large percentages—40-odd per cent over the piece. That is one choice. In addition, we offer PPP and the prudential regime to local authorities as routes through which to increase capital expenditure in their areas. There is a basket of possibilities. I must say that we have to get the spend on PPP in context, because it accounts for 2 per cent of the Executive's budget; the rest is traditional funding.

The choices in relation to the PPP mechanism are made available to local authorities and they can take them or not. Clearly, the Executive also has its commitments. The Executive parties were elected on a basis that they would deliver new schools and new assets to our communities; therefore, we seek to work in partnership with our local authorities to deliver those. Clearly, PPP is one route that can allow that to happen, but it is only one item in the toolkit. It is the minor player in the capital game, because it covers only 13 per cent of our capital spend.

We could debate PPP until the cows come home. Let us get back to maintenance. We talked

about how, in the past, because of pressures—do not get me wrong—local government chose to do things with its money other than maintain assets. With PPP, we lock in the value of maintenance of the asset over the lifetime of the contract. The issue needs to be examined in a general way across the toolkit that is available to local authorities, which contains what we are doing with traditional funding capital routes and the PPP route.

**Mr McFee:** To follow up on that, level-playing-field money is available only if the local authority is going down the PPP route. I will ask my question again. I do not want to get into the argument about whether PPP or the traditional method is best but, if it could be demonstrated that the traditional method was better, could not the money that would be made available only through a PPP be freed up to support capital investments through a traditional route?

**Mr Kerr:** My substantial point is that the loan cover that we give just now supports all that investment anyway. PPP is a delivery tool that allows us to go above the traditional support that we are giving. Through the PPP funding that is agreed with the UK Treasury, we can lever in even more resources. There is a difficulty around the issue of whether we can do both, because with PPP we are providing additional leverage and additional capital spend that otherwise may not be available.

I am always challenging the public sector to come up with interesting, novel and doable methods by which we can fund services generally, as well as capital projects in local government but, to date, PPP works well, the projects are being delivered on time and we are getting value for money from them. That is in addition to the historic high levels of capital support that we are giving. The loan support that we give to local government is not tied to a particular model. The additional investment that we bring in via PPP is tied to that model because it can be managed within the Executive's resources.

**Mr McFee:** If local authorities were able to show you an imaginative new method whereby they could update schools—or whatever the project was—with the project being carried out more efficiently although it involved releasing the part of the level-playing-field money that is available only through PPP, would you consider that as an alternative to using level-playing-field money?

**Mr Kerr:** We deal all the time with novel financing regimes that are proposed by local authorities—a number of novel models are on the go. We will seek to support those models that we believe are sustainable and will deliver the asset or services that the project is designed to deliver. For example, housing stock transfer might not be

the solution for a local authority that has a low debt to housing ratio. That local authority might therefore be looking for potential support from the Executive to do other things with its housing stock in terms of investment. We engage all the time with local authorities in such processes.

We have a partnership commitment to build new schools. We believe that the mechanism for delivery of those schools is fully supported with local authorities bidding for that cover through PPP. It is an extremely positive, productive and efficient way of delivering the end product, which is a new school that will be maintained for 30 years. That is why we choose to use that route.

We are making decisions to deliver our priorities. We always leave scope for local authorities to deliver or come up with other methods of delivery. They do that all the time and we seek to engage with them as and when it is appropriate.

**Mr McFee:** So if a local authority came up with another method of financing that type of investment, you would be prepared to consider the level-playing-field money that otherwise would be put into PPP projects as a method of sustaining the capital that will be borrowed.

**Mr Kerr:** I have to say that we are committed to 300 new schools. If I would not get 300 new schools out of such a proposal, the answer would be no. If I would get 300 schools out of it, I would be interested to see that model. Many authorities have come to us with models that do not work in the cold light of day. The more they vary from the PPP model, the less likely they are to deliver.

I have to secure the Executive's commitment to deliver 300 new schools—a tried and tested route for that is PPP. I would have to assess any other model that was brought to me to see whether it was capable of delivery. I have not yet seen one.

**Mr McFee:** But you do not rule it out.

**Mr Kerr:** I have never ruled out anything, particularly in housing, where interesting models are being developed. Anything new would have to come up to the strict measures of value for money and would have to do well by the public sector comparators. Those models do not yet exist.

**Paul Martin:** In relation to the non-domestic rate income, the minister will be aware that the 2002 projected spending review estimates that there will be £500 million in reserve over three years. During its session with the committee, COSLA raised the question of whether those funds will be made available to local councils.

**Mr Kerr:** The business community has asked for those funds to be made available to it as well. I have several views on that. We have a five-year planning horizon for what we will require from non-domestic rate income. That is based upon an

assumption that there would be zero growth, but there was growth so there is buoyancy in the numbers. We also took into account what we lost in appeals. A rate is set by the assessors, not by the Executive, and that goes through a process of challenge; we win some and lose some. That also affects the figures.

We put the best possible science into our projections. Clearly, the projection has delivered more than we thought that it would because of buoyancy, or because of property values' increasing and more properties' being built. We took cognisance of those things, but buoyancy was greater than we thought it would be and we did not lose as much as we thought we would in the appeals process.

The system is based on a five-year projection; it is more accurate on some occasions than it is on others. I have asked my officials to ensure that we learn lessons from this period so that we can get a more accurate figure. However, I do not want to project with margins that are so tight that we do not achieve our basic income, but end up with a budget deficit.

On whether the extra money should go back to local government, I believe that some of the money is finding its way back to local authorities through what we do to support them. Likewise, much of the money is winding its way back to the business community because we seek to match our resources to our policy priorities.

We seek and fund shared priorities for local government and we are meeting our objectives in business priorities such as transport, broadband, the skills agenda and investment in Scotland's infrastructure. We take the risks and if we get it wrong, we fill the gap. On this occasion, we are resourcing our priorities through the excess NDRI money, as I explained in my statement in the chamber.

**Paul Martin:** Should we consider rewarding cities such as Glasgow, which improve their local and business economies and contribute significantly to the NDRI fund? Should we have an innovatory practice that makes local authorities feel that they are being rewarded for developing vibrant cities?

**Mr Kerr:** I do not believe that economic development in Glasgow or in any part of Scotland is driven by business rates income; it is driven by communities' desires for quality employment. We could have a long discussion about how to deal with the NDRI excess. However, at the end of the day a particular envelope of money is available and it remains the same whatever is done. For example, if Glasgow retained more of its NDRI, it might get less from the GAE assessment. We spend our money in local government on the basis

of need. That is our focus for the allocation of resources.

There is an interesting academic debate around how we do that. Sadly, Christie Smith has probably been involved in more discussions than I about how we distribute resources to local government. Certainly, the lesson is that if we balance assessment of need against income, hellish little changes in what each local authority obtains because checks and balances are built into the system. I appreciate the call for the excess money to be redistributed, but once the money is put through the sausage machine the difference per council is not great.

We also seek to do other more innovative things outside the envelope, such as with the cities growth fund and our quality-of-life commitment. Through such innovative mechanisms, we are doing our communities and local councils much greater service. We work within the envelope that is based on local authorities' needs, but make available extra resources from the cities growth fund or the business improvement districts programme, which is another innovation that will enhance the economic capability of our communities.

Paul Martin argues for Glasgow to retain more of its NDRI. However, if that happened, X council—I will not name it—would complain that it was down by £X million because of the money that had gone back to Glasgow. After the money is put into the sausage machine, we end up with no substantial change in what each local authority gets. However, we are becoming more innovative through our use of mechanisms such as the cities growth fund, which is driving an interesting agenda—particularly in Glasgow—on regeneration, investment and jobs.

**Paul Martin:** On a completely separate subject, the minister referred in his slide presentation to the introduction of the single transferable vote by 2007. Have any estimates been made for the introduction of STV?

**Mr Kerr:** Funds have been set aside for innovation in elections methodology, which might include electronic or postal balloting, but that is not directly related to the electoral system—it relates to openness, accessibility and increasing voter turnout using the latest technology and policy initiatives. The funds are not specifically for STV.

**Paul Martin:** So no specific funds have been set aside for STV.

17:45

**Mr Kerr:** Resources have been set aside for running elections, but I cannot remember exactly what they are. I will come back to the committee

on that. I am talking about electoral methodologies, computer-based voting, postal ballots and innovations that might be required.

On planning horizons, there will be a couple of spending reviews to take cognisance of any differences that STV would make to processes. Money has been set aside for electoral pilots and innovation in elections that does not directly relate to the current system.

**Iain Smith:** I have a couple of quick questions—if they have already been answered, the minister should tell me and I will look up what has been said in the *Official Report*.

**Mr Kerr:** So you want to check up on me.

**Iain Smith:** In drawing up the local government budget, what assumptions does the Executive make about the levels of council tax that local authorities will charge in the next year?

**Mr Kerr:** We make no assumptions about council tax. Local authorities have given us three-year projections because of our three-year funding partnership with them, but those are not part of our calculations—they are for local initiatives and spends.

**Iain Smith:** Page 173 of the draft budget document states:

“Specific grants account for a decreasing proportion of AEF over the next 3 years.”

However, I used my calculator for the figures in table 10.03 and found that the proportion of specific grants increases slightly from 8.25 per cent to 8.38 per cent over those three years. Is my calculator wrong or is yours?

**Mr Kerr:** Your calculator is probably right, but the historic figure that we are using is 10 per cent from the previous spending review period. When we talk about the reduction of historic ring fencing or hypothecation, that reduction is based on the previous three years.

**Colin Cummins (Scottish Executive Finance and Central Services Department):** There is extra funding for the police, which is rightly 75 per cent of the figure. That is where the main increases will be.

**Mr Kerr:** The reduction from 10 per cent to 8.3 per cent that I mentioned was based on the previous three-year budget. As Colin Cummins points out, there are increases to cover additional police numbers.

**Iain Smith:** The narrative does not make that clear.

**Mr Kerr:** I take your point.

**Iain Smith:** The document should refer to the previous three years.

**The Convener:** Iain Smith has done well with his interrogative work on his calculator.

**Iain Smith:** What account do you take of additional funds that are outwith the envelope in determining how much is ring fenced in the cities growth fund and the quality-of-life initiative?

**Mr Kerr:** I hope that local authorities do not see such initiatives as being ring fenced. We set out broad parameters about what we expect to be achieved, but those parameters were mutually agreed. On the quality-of-life initiative, we discussed spending on children, children's services and services to communities and put a broad structure around what should be achieved, but that was agreed with COSLA in advance. What we have done in the past in issuing money to local government should be considered.

I sent out a quick letter that said what we seek to do and that discussed parameters that we agreed with COSLA, and letters were sent back from councils saying that there will be a skateboard park or free swimming for the elderly. I think that only two authorities did something that we thought was a bit off, but it would probably be unfair to say which authorities. There was a Christmas decoration fund—I will not go any further because the other authority would be easily identifiable. We thought that such a fund was not quite what we meant in relation to quality-of-life funding and core funding of local authority services.

The answer to your question is that I do not view those as ring-fenced resources; rather, I view them as having been agreed in partnership with local authorities. The quality-of-life initiative came from their involvement with me in discussions over a number of months. It was a mutually agreed agenda, so I do not view those resources as being ring fenced. I do not know how COSLA views them; I have not asked that question.

**Christie Smith:** The acid test is that the local authorities do not have to send financial returns to us about how they have spent the money. We reached an agreement on what they would spend the money on and that is the end of it. The money is literally not ring fenced in that sense.

**Mr Welsh:** The market day is wearing late, so I will be brief. What thinking is being done about the flow of capital projects? I know that everybody wants the maximum number of schools, houses and so on built, but surely it has to be done in such a way that the building industry and local authorities can absorb the projects. Scotland is currently basically a gigantic building site. It worries me that unless there is more medium-term and long-term thinking there will be less value for money. I am concerned that for the same block of money we will get fewer schools, houses and hospitals. What thinking is being done along those lines?

**Mr Kerr:** We are aware of that issue. We have been working on how we manage what is a huge and welcome investment in Scotland's infrastructure. Through the financial partnerships unit in the Executive we take an overview of all the projects that are in the pipeline in the public sector. Those include 300 new schools, the water investment, more work in the health and transport budgets, and the Glasgow housing stock transfer. All those things are playing into a very tight marketplace. We are seeking to ensure that Scotland plc, if we want to use that phrase, gets its purchasing and procurement routes in line. We want to ensure that we do not go to the marketplace and create a suppliers' market in which they can pick and choose from the work that is available. We want to keep some tightness in the marketplace in terms of competition. Although experiences differ throughout Scotland, we are still seeing a good show of competition in relation to, for example, PPPs on schools. Competition is not so good in other areas.

The financial partnerships unit is also seeking to engage with the private sector to ensure that what we do in the public sector assists that unit's ability to plan longer-term investments in Scotland and align its resources to the work that we have available. It is a subject of great concern, but it is under a great degree of scrutiny.

**The Convener:** That brings us to the end of our questions. I thank the minister for his forbearance for the delay. I thank all members for their contributions and the minister for his evidence.

## Subordinate Legislation

### Local Government in Scotland Act 2003 (Ancillary Provision) Order 2003 (Draft)

17:52

**The Convener:** I almost let the Minister for Finance and Public Services go before the last item on the agenda.

**Mr Kerr:** Yes. I was about to go. I am glad that we are all on the ball.

**The Convener:** Absolutely.

The fourth item on the agenda is subordinate legislation; the committee must deal with an instrument that is subject to affirmative procedure. The minister, Andy Kerr, is here to address the committee on the instrument. Christie Smith and Colin Cummins will again assist him.

The instrument is the draft Local Government in Scotland Act 2003 (Ancillary Provision) Order 2003. I apologise for my hoarseness, but I have a sore throat and my voice is starting to go. The order is laid under the affirmative procedure, so the minister is at the committee to move a motion on the instrument. We usually give members the opportunity to ask questions of the minister before he moves the motion. It is getting late and I suspect that members do not want to ask too many questions. I ask the minister to speak briefly to the instrument, then we will see whether members want to raise any questions.

**Mr Kerr:** It would be good if members could ask any questions in the informal part of the discussion, because the order essentially makes a technical change to correct an omission and ensure that Scottish ministers have the power to make regulations. The order does not alter policy in any way, shape or form; it will enable us to make detailed regulations relating to local authority pension reserves. Both COSLA and the Local Authority (Scotland) Accounts Advisory Committee will be consulted on the draft order before they are laid before Parliament, but the draft order simply corrects a technical error.

**The Convener:** As no members have any questions, I invite the minister to move formally the motion in his name.

*Motion moved,*

That the Local Government and Transport Committee recommends that the draft Local Government in Scotland Act 2003 (Ancillary Provision) Order 2003 be approved.—  
[Mr Andy Kerr.]

*Motion agreed to.*

**The Convener:** Thank you very much, minister.

17:54

*Meeting continued in private until 17:58.*



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