

Cabinet Secretary for Infrastructure and Capital Investment
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Dear Maureen

Infrastructure and Investment Committee Report on the Scottish Government Draft Budget 2012-13 and Spending Review 2011

I welcomed the opportunity to discuss the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 with the Infrastructure and Investment Committee on 9th November 2011.

Following on from the committee's report on the budget, I now enclose at Annex A the Scottish Government's written response to the recommendations contained in that report.

Alex Neil

ALEX NEIL

cc. Cabinet Secretary for Finance, Employment and Sustainable Growth
Minister for Housing and Transport
Minister for Energy, Enterprise and Tourism

SCOTTISH GOVERNMENT RESPONSE TO INFRASTRUCTURE AND INVESTMENT COMMITTEE REPORT ON SPENDING REVIEW 2011 AND DRAFT BUDGET 2012-13

TRANSPORT

26. The Committee welcomes the Cabinet Secretary's offer to share some examples of post-project appraisal with the Committee. The Committee also expresses a wish that in the future such appraisals should be more widely and systematically available.

Transport Scotland plan to publish data on the performance of schemes on the Transport Scotland website on a year by year basis and will provide the Committee with copies of these reports at the appropriate time.

Financing methods: NPD and RAB

35. The Committee is[, therefore,] concerned that borrowing repayments are likely to be a burden on revenue lines on subsequent Spending Review and is keen to seek assurances that this does not impact on future revenue settlements for local authorities or Regional Transport Partnerships.

The Infrastructure Investment Plan, published in December 2011, addressed this concern, with its commitment to working within a sustainable financial framework, as set out in the foreword and at page 21. We will ensure that future revenue commitments do not overly constrain choices on revenue settlements in future years. We will cap revenue commitments linked to capital investments (including existing PFI commitments we have inherited, future debt repayments, NPD and RAB payments) to a maximum of 5% of our expected future annual DEL budget.

Low carbon Scotland Active travel and preventative spend

68. The Committee recommends that the Future Transport Fund should be focused on capital projects that provide high economic return and which demonstrably contribute to Scotland's ability to address the 10% cycling modal share target. The Committee suggests that Transport Scotland should liaise with Cycling Scotland, Sustrans and Living Streets Scotland to determine the precise nature and administration of this resource.

The Future Transport Fund (FTF) will enable us to encourage further modal shift and reduce the impact of transport on our environment, through on-going capital investment for low-carbon transport projects over the coming years. A capital investment package from the FTF has been agreed by Ministers, totalling £11m in 2012/13 and 2013/14, taking into account the priorities for stakeholders across the spectrum of sustainable transport interests.

The FTF allocations will build on the developments that have already been seen in recent years, supporting delivery work in the following areas of activity:

- Continued work by Sustrans, in partnership with local authorities, building on the approach developed to date to implement priority infrastructure projects across Scotland. Investment will focus on short community links to encourage more people to cycle and walk for their local everyday journeys, as well as work on our National Cycle Network.
- Development of electric vehicle charging infrastructure, particularly through our participation in the Plugged-in Places programme.
- A third round of the Scottish Green Bus Fund in 2013/14, to build on the achievements of the 2011 fund and enable operators to include more routes serviced by low carbon vehicles.
- The continuation of Freight Facilities Grant (FFG) - a capital grant scheme which encourages the transfer of freight from road to rail where the road option is currently cheaper.

The allocation of the first £11m under the Future Transport Fund for 2012-13 and 2013-14 is given below:-

	2012-13, £m	2013-14, £m	Total, £m
Cycling Infrastructure	1.5	1.25	2.75
Freight Modal Shift	0.75	2	2.75
Low Carbon Vehicles, including Green Buses	1.0	4.5	5.5
Total	3.25	7.75	11.0

Transport Scotland will now work with stakeholders and partners to plan and deliver projects to make the most effective use of this investment in supporting the transition to low-carbon transport. These areas of spend combine climate change benefits with other policy benefits, as well leveraging additional resources from both the public and the private sector to support the low-carbon economy in Scotland.

An announcement will be made early in 2013 about the allocation of an additional £18.75m in 2014/15 which will continue the development of these areas of low-carbon investment. The remaining £20.25 available to the Fund will fall in 2015/16.

69. The Committee also recommends that the Scottish Government should give consideration to setting the active travel budget as a proportion of total transport spending.

We note the Committee's recommendation, but this is not the first time that this suggestion has been made. In recent years across the UK, health professionals along with a range of stakeholders have shown support for this approach. However, levels of transport spend cannot simply be based on percentage allocations for each transport mode. The budget must reflect existing contractual requirements, planned maintenance and upgrades and reflect transport priorities for each mode. Allocations to transport projects are made by evidence gathering, public consultations and various impact assessments. It would be remiss of Transport Scotland to arbitrarily allocate definite amounts of investment without carrying out the necessary due diligence.

72. The Committee recommends that the Cabinet Secretary seeks to maintain Cycling Walking and Safer Streets funding at the current level of £7.5 million per annum and ensures that the fund continues to be ring fenced. Similarly, the Committee recommends that the £2m funding for trunk road cycling facilities is maintained.

On 8 December, John Swinney announced the continuation of the Cycling, Walking and Safer Streets grant allocated to local authorities as part of the Local Government Finance Settlement which provides additional funding for active travel, some £6.069m in 2012-13. This funding can be used to complement the projects being delivered by Sustrans and Cycling Scotland. Although this budget represents a 19% capital reduction across all local authorities, it is a smaller reduction than the Westminster imposed figure of 36%, and is due to Scottish Government intervention in acting to support locally delivered initiatives.

We will continue to implement the Trunk Road Cycling Initiative's requirement for cyclists to be given special consideration in all new trunk road schemes and within improvements, which will be subject to cycle audits in accordance with the Cycling by Design guidance published in 2010. The most recent examples of cycle facilities being included in a new trunk road project is the A96 Fochabers and Mosstodloch By-pass, which includes the provision of 4 non-motorised user underpasses and 3km of shared use cycleways. The £2m figure quoted is an estimate of investment and could increase depending on levels of upgrading required.

73. In progressing these recommendations, the Committee would also welcome greater clarity within the transport budget on the levels of funding for active travel. The Committee notes that the best estimate of levels of funding for active travel is provided by Spokes, the cycling charity, and recommends creating a separate budget line for active travel within the transport budget, or even creating respective budget lines for cycling and for walking and safer streets.

Again, whilst noting the Committee's recommendation, consideration concluded that the Active Travel element of the total Scottish Government budget is not sufficiently material to justify a separate line in the budget document. Also, given that we are working with 32 local authorities, it would be bureaucratically unwise to split the Cycling, Walking and Safer Streets budget in two. Active Travel has a role to play in increasing sustainability and contributing to climate change targets, and as such, it should remain part of the wider low carbon budget. The Committee will wish to note that the Sustainable Transport Team provides Spokes and other stakeholders with budget details on Active Travel as and when requested.

Funding for bus travel

80. The Committee notes the Cabinet Secretary's commitment to the Concessionary Fares scheme and welcomes the forthcoming review of the bus industry in Scotland which will address concessionary fares, support for Demand Responsive Transport and Bus Service Operators Grant (including a linking of this subsidy to climate change objectives). The Committee would welcome the opportunity to monitor this exercise in due course.

The Scottish Government will revise bus subsidy paid as the Bus Service Operators Grant as from April 2011. The funding available for BSOG will be £50m/year for the spending review period. Fuel will be removed from the payment calculation to incentivise fuel efficiency and to address climate change targets. This will mean some redistribution of the grant to more rural services which have longer routes. The scheme retains incentives for low carbon vehicles and some biofuels. Discussions have been completed with the Confederation of Passenger Transport.

Amendments to legislation will be laid to enable fully flexible bus services available to the general public to register as a local bus service and to qualify for Bus Service Operators Grant and the Concessionary Travel scheme as from April 2011.

We will progress an amendment order during 2012 to detail the funding for the Concessionary Scheme going forward. We are also planning to commission research to further improve and update the evidence base underpinning reimbursement payments to bus operators for carrying concessionary bus passengers. The findings will provide information that will support the establishment of reimbursement payments and concessionary fares budgets in future years.

The rail industry

83. The Committee acknowledges that some progress has been made in managing rail industry costs, but would encourage Transport Scotland to continue to seek efficiencies and savings (to safeguard future transport spend in other areas) potentially during the next refranchising exercise.

Efficiencies from expensive budget lines to safeguard spending

84. The Committee has identified three expensive spending lines where even relatively modest efficiencies could substantially increase the available resource and used to underpin low carbon and active travel. Specifically:

- **From the Government's investment in the rail industry, during refranchising, for example;**
- **From more efficient management of operation of the concessionary fares scheme; or**
- **From trimming the trunk road maintenance budget.**

85. The Committee requests that the Scottish Government give consideration to these [the above] suggestions.

Taking investment in the rail industry first, the Scottish Government has an unswerving commitment to Scotland's railways, which is vital to the pursuit of faster sustainable economic growth.

While we recognise the need for a lower-cost, more integrated, better performing railway, that provides better value for money to passengers and the taxpayer, how we achieve this will be based on what the Scottish rail industry and, more importantly, what the people of Scotland have told us is best for them and for our economy. Above all, we remain committed to a Scottish railway which brings communities together, enables business to increase productivity and increases access to employment and education opportunities creating a platform to support faster sustainable economic growth.

To ensure our success continues while meeting the challenges we face, in 2014 we will renew the current contract for rail passenger services and the funding arrangements for Network Rail in Scotland. Our ambition is to have a railway that offers value for money, ensures that the railway industry acts in a coordinated, integrated manner, and, most importantly, has passenger interests at its heart.

With regard to trunk road maintenance, Audit Scotland have highlighted that the maintenance backlog across the entire road network is around £2.25bn and growing given the increasing volume and weight of traffic combined with the recent severe winters. To mitigate some of the future deterioration on the network, the Minister for Housing and Transport has established a National Road Maintenance Review to recommend how best to deliver efficiently managed roads for all within available budget. This review is due to conclude in spring 2012 and has evidenced the negative economic, social and environmental effects a cut in road maintenance spend would have on roads users. This includes reduced accessibility across Scotland's communities, reduced safety for pedestrians, cyclists and other road users as well as a detrimental impact on the wider environment. As a result, Ministers do not envisage making reductions to the trunk road maintenance budget.

The management and operation of the Concessionary Fares scheme has been addressed in the response to paragraph 80.

Ferries

88. The Committee welcomes the Cabinet Secretary's recognition of the age of the fleet and with aspiration to renew ageing vessels as soon as possible. However, whilst the Committee also recognises that in the current financial climate, and without additional borrowing powers, this will be particularly challenging, it is of the view that a strategy for addressing this issue must be identified. The Committee hopes that clarity on the Scottish Government's thinking on how this matter will be addressed will be provided when the outcome of the ferries review is announced by the end of 2011.

In the Draft Ferries Plan, published on 21 December 2011, the Scottish Government explained that they were not yet in a position to determine the actual levels of funding required over the period of the Ferries Plan. The level of investment required is dependent on the services to be provided, and the Draft Plan explains that further work is being taken forward to determine what services should be provided to each community.

We stated in the Draft Ferries Plan that we would continue to work with CMAL to consider alternative financing options. Potential alternatives for short, medium and longer-term investment opportunities would be considered. In doing this we will be mindful of the potential risks involved in not being in a position to meet investment priorities. Once we fully understand the level of investment required we will reach final decisions about how CMAL might access funds and this information will be made available in the Final Ferries Plan, to be published later this year.

HOUSING

95. Whilst the Committee appreciates and understand the overall constraints on the draft Budget, it also acknowledges the concerns expressed by some key stakeholders in the housing sector that the reduction in the housing and regeneration budget may limit the ability to address housing need as effectively as possible.

Housing is and will remain a priority for this government. Housing is a key part of our physical, economic, and social fabric and our investment in house construction can also provide extremely valuable support to industry in times of economic downturn. We have been absolutely clear that we aim to deliver 30,000 affordable homes over the lifetime of this parliament and over £630 million will be available for housing over the next three years to keep us on track to achieve this aim.

We have already announced a funding package that, when combined with the programmes in Glasgow and Edinburgh, will deliver over 4,300 homes

through the Innovation and Investment Fund. The main focus must now be about making sensible allocations of the available budget over the next three years, and ensuring that new housing projects which can deliver the maximum value for taxpayers' money are commissioned as quickly as possible. However, we are clear that we will need to do things differently in order to maximise the leverage that can be achieved from our investment. This means that everyone in the housing sector will need to work together to achieve this aim.

96. The Committee recognises the positive economic impact which results from spending in the housing sector. It therefore recommends that the Scottish Government should seek to significantly supplement the housing and regeneration line from its proposed transfer of £750m from resource expenditure to the capital programme over the period until 2014-15.

Details of the resource DEL to capital DEL switch are set out in the Scottish Government response to paragraph 163 of the Finance Committee's report.

Level 3 – Supporting Economic Growth/Housing Supply

116. The Committee has experienced difficulty in obtaining a full and clear picture from the available information on the adequacy of funding to deliver on affordable housing over the spending review period. The information in the draft Budget provides is only one component. An allocation will also be made to local authorities via the local government settlement, but the details of this have yet to be announced. In addition, significant funding will be obtained from a range of other sources as part of the Innovation and Investment Fund, such as public works borrowing through the councils and bank borrowing through the housing associations. Detailed information on these components is not available.

117. Is considered important that in future the Committee has access to clearer and more comprehensive information to allow it to better consider the adequacy of Scottish Government budget provision for housing in the remainder of the spending review period. It therefore calls on the Scottish Government to consider how it might provide information on the numbers of house completions and projected completions, broken down by the various sources of funding used, in advance of the next draft Budget. This would greatly assist the Committee in conducting a proper analysis of progress being made in delivering the Scottish Government's commitments on affordable housing.

The Transfer of the Management of Development Funding (TMDF) allocations for 2012-13 were confirmed in our Local Government Finance Circular No11/2011 (Annex O) which was published on the Scottish Government web site (see link at <http://www.scotland.gov.uk/Resource/Doc/1070/0123866.pdf>) on 8th December 2011 to accompany the Local Government Finance

announcement to Parliament. The allocations for 2013-14 and 2014-15 are subject to further discussion and agreement with COSLA and the councils concerned.

There is a range of funding that will contribute to the build costs of housing developments in addition to Scottish Government grant. This will be finalised by the individual developers as projects progress. It is therefore not possible to give detailed information on all of these components in advance.

We plan to complete a total of 30,000 homes over the lifetime of this parliament, an average of 6,000 each year. For 2011/12 we expect around 6,800 homes to be completed. Once we have detailed programmes agreed with local authorities we will be able to provide estimated completions on an annual basis at a national level. However these will be expected figures which may change over the course of the year due to possible delays in some projects starting on site or delays to anticipated completions following, for example, poor weather. Actual completions are published quarterly on the Scottish Government web site. This does not show completions broken down by the budget elements that have contributed to the build costs. However, our published statistics do report on completions by the type of activity within the Affordable Housing Supply Programme e.g. the number of houses completed by local authorities, new-build by registered social landlords and homes provided for low cost home ownership. At the end of each financial year we will continue to provide more detailed outturn reports on the actual units completed and ensure that this is forwarded to the committee.

Supporting Sustainability

Climate Change and a Low Carbon Economy

129. The Committee urges the Scottish Government to make every effort to ensure that Scotland's interests are fully represented in discussions on the allocation of funding from the relevant UK initiatives.

The Scottish Government worked with the Department of Energy and Climate Change (DECC) in the period leading up to formal consultation on the Energy Company Obligation and Green Deal to make sure that Scotland-specific issues are recognised. We have emphasised the need make sure delivery of the new schemes is as seamless as possible across Great Britain and that Scottish householders and businesses are not disadvantaged or burdened because of their location. The Cabinet Secretary for Infrastructure and Capital Investment has had productive discussions on these issues with the Secretary of State for Energy and Climate Change. The Scottish Government has submitted a formal response to the consultation, which closed on 18 January.

The scale of the ECO proposed by the UK Government, which only emerged when the consultation paper was published on 23 November, is considerable. The paper estimates that around £1.3 bn of investment will be delivered each year through the ECO alone. This is equivalent to around £120m in Scotland based on a pro-rata share of investment across Great Britain and compares

favourably with the level of funding available through the current energy company obligations, CERT and CESP.

A number of consultation events involving both Scottish Government and DECC were held in Scotland during the consultation period. We reflected stakeholders' main concerns in our formal response as well as encouraging organisations to submit their own responses to DECC.

This is a complex policy area, however, and the Scottish Government will continue to engage with DECC and with our stakeholders beyond the formal consultation period to ensure that Scotland's interests are fully represented.

132. The Committee welcomes the increase in budget for home insulation and energy efficiency measures. However, it notes the concerns expressed in evidence that, despite this increase, the available funding may not be enough to deliver the housing sector's contribution towards meeting the Scottish Governments own climate change targets and, specifically, the objectives set out in the Report on Proposals and Policies (RPP).

We are absolutely committed to meeting our Climate Change Act targets and the milestones set out for housing in the RPP. The Spending Review settlement is as generous as possible in the context of the budget cuts imposed by the UK Government. The budget agreed in the Spending Review is sufficient to fund the emission savings needed from our own programmes to achieve the housing contribution to our emission targets based on the analysis set out in the Report on Proposals and Policies published earlier this year. UK Government programmes, including the new Energy Company Obligation and Green Deal, also contribute to the RPP housing objectives and Scottish Government spending on energy efficiency will draw in significant funding from these and other sources. The RPP does not depend on Scottish Government funding alone.

133. The Committee recognises that the Scottish Government is faced with difficult spending choices. However, if its own ambitious carbon reduction targets are to be met, it notes that more innovative and creative solutions may have to be identified to make the necessary home insulation and energy efficiency improvements across all housing tenure types. The Committee notes the economic benefits in terms of job creation, opportunities for local companies etc. that such initiatives can potentially deliver.

The second Report on Proposals and Policies is due to be published in 2012. We have always said that we would refine the policies set out in the first RPP if necessary and that we will continue to develop the proposals or alternatives if these are needed to meet our commitments.

The Cabinet Secretary for Infrastructure and Capital Investment has established a Sustainable Housing Strategy Group to advise him on delivery of our commitments on sustainable housing, including those in the RPP, and

to develop a Strategy for Sustainable Housing in Scotland. The group has already started to consider the full range of issues affecting both new and existing housing. This will include:

- the housing contribution to the next RPP, which will set out our approach to meeting future emission reduction targets
- retrofitting Scotland's existing housing stock to make it more energy efficient
- home owner awareness and support on housing quality
- setting standards for both social and private sector housing
- working creatively to maximise the resources available to meet these challenges.

Level 3 - Supporting Transitions

138. The Committee notes that the Scottish Government is to produce a national strategy on housing for older people and looks forward to its publication with interest when it will examine the issue of adaptations in more detail. However, It notes the example of preventative spend benefits of adaptations highlighted in evidence and discusses these further in the next section of this report.

Preventative Spending

143. The Committee notes that significant potential exists to develop existing spend – for example on energy efficiency and adaptations initiatives – and to identify further opportunities for preventative spend within the housing and regeneration budget. It is encouraged by the example provided by the SFHA of spending on adaptations which led to savings in health and social care budgets. Although the Committee has not examined this specific initiative in detail, it appears to be an excellent example of preventative spend in the housing sector.

144. The Committee agrees that preventative spend measures have capacity not only to save money but also to make a contribution to the delivery of other Scottish Government objectives such as its ambitious climate change targets, improvements in health and social care and progressing the homelessness agenda. It is therefore of the view that the Scottish Government should place a particular focus on this aspect of the development of its future spending plans for housing and regeneration.

145. The Committee recommends that the Scottish Government should work with stakeholder partners to make a comprehensive assessment of the opportunities for preventative spend across the housing sector which have potential to deliver savings in that sector and in other portfolio areas.

We agree with the committee that the benefits of preventative spending apply also to housing. Indeed the new strategy on housing for older people, which

we published on 20 December 2011, emphasises the importance of preventative support services, such as housing support and handyperson services. It draws attention to many other examples of good practice in supporting older people to live independently, including the adaptations research to which the committee itself referred. We have established two independently chaired short-term working groups, involving a wide range of housing stakeholders, which will report later this year on how to improve the whole system for funding adaptations and strengthen the focus on preventative support for older and disabled people.

Further details on the Scottish Government's action on preventative spend are set out in the Scottish Government response to paragraph 63 of the Finance Committee's report.

Potential impact of the Welfare Reform Bill

149. The Committee notes that the Spending Review does not factor in the impact of the changes proposed in the Welfare Reform Bill. It calls on the Scottish Government to monitor developments closely and to maintain a close dialogue with stakeholders should the proposed changes impact on the allocations in the Spending Review for the provision of housing and homelessness services.

We agree with the committee on the importance of monitoring the impact of the UK Government's welfare and housing benefit reforms, particularly in relation to homelessness. We are in regular contact with the UK Government, Scottish local authorities and other stakeholders about the impact of the changes in housing benefit here, and were able to make a small amount of additional funding available recently to COSLA, CIH and local authorities to strengthen impact assessment and mitigation activities in the current financial year.