The Committee will meet at 11.30 am in Committee Room 1, to consider the following agenda item:

1. **Subordinate Legislation:** The Committee will consider the following affirmative instrument:

   Special Grant Report No 3: Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area SE/2001/74
The following public papers are relevant for this meeting:

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TRANSPORT AND THE ENVIRONMENT COMMITTEE

Scottish Statutory Instrument
Special Grant Report No 3: Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area SE/2001/74

1. Special Grant Report No 3: Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area SE/2001/74 was laid on 21 February 2001 and has been assigned to the Transport and the Environment Committee for consideration (as paper TE/01/8/2).

2. An Executive note accompanies the instrument (as paper TE/01/8/3).

3. The Report is laid under an affirmative procedure which means that Parliament must approve the instrument before it may come into force. The sponsoring Minister (Sarah Boyack, Minister for Transport) has accordingly lodged a motion that the Transport and the Environment Committee recommends that Special Grant Report No.3: Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area be approved (S1M-1715).

4. Parliament has until 4 April 2001 to deal with the instrument and the Transport and the Environment Committee is required to report on the instrument by 26 March 2001.

5. The Report provides for the payment of Special Grant to the 12 councils, which are in whole or in part within the area of the Strathclyde Passenger Transport Authority.

6. The Transport and the Environment Committee raised issues relating to the funding of SPTE in its report to the Finance Committee at Stage 1 of the Budget Process for 2001-02. The then Minister for Transport and the Environment, Sarah Boyack, responded to the report on 14 September 2000. Relevant extracts from the Committee’s report and the Minister’s response are attached at Annex A of this note.

7. The Transport and the Environment Committee considered a Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area last year at a meeting on Wednesday 29 March 2000. For information, the relevant extract from the Official Report of that meeting is attached as Annex B to this note.

8. The Subordinate Legislation Committee considered the instrument at its meeting on 6 March 2001 and agreed that no points arose on the Report. The Committee’s 11th Report 2001 indicated that the Committee did not wish to draw the attention of the Parliament to the instrument.

9. The Minister for Transport and supporting Officials will be attending the meeting of the Transport and the Environment Committee on 21 March to answer any
questions members may have on the instrument. The Minister will then move the
motion S1M-1715 and the Committee may formally debate the motion.

10. Under Rule 10.6 the Committee is required to report to the Parliament with its
recommendation on whether to approve the instrument.

Alastair Macfie
Assistant Clerk to the Transport and Environment Committee.
March 2001
ANNEX A

Extracts from the Transport and the Environment Committee's Report to the Finance Committee on the Budget Process 2001-02 (26 June 2000), and Response from the Minister for Transport and the Environment (14 September 2000)

Extract from the report
Table 7.1 ("Investing in You", 20 April 2000, pg 93) shows a decline in the level of Grant to local authorities for transport projects. According to the Executive, grants to Strathclyde Passenger Transport Executive (SPTE) account for almost all of this line of expenditure. The Committee considers that in future the level of grant to SPTE should be given in the report.

The level of special grant awarded to SPTE is negotiated on an annual basis and takes into account increased revenue through greater passenger numbers. In other words as the SPTE income from fares increases, the grant from central government decreases. Similarly, the grant in aid provided to the Scottish Environmental Protection Agency (SEPA) is declining because of the higher income levels it is expected to receive from its charging schemes.

From the information it has considered to date the Committee is not in a position to take a definitive view on whether this is the right approach in relation to these two circumstances. However, the Committee would be opposed to any assumption that, in general terms, central funding should automatically reduce as a consequence of income generation.

The Committee considers that there may well be a case in some circumstances for maintaining grant levels, even though income from other areas is increasing, to raise the level of total funds available. This will depend on the investment needs of the particular service or body concerned and the objectives being pursued. For example, in relation to SPTE, the Government's objectives of increasing the use of public transport may be better supported by maintaining the level of grant, thereby enabling SPTE to increase investment in infrastructure and improving the service. Alternatively increased income could be used to reduce a service's deficit.

The Committee believes that further information on the criteria employed by the Executive in determining whether and when to treat income generated as additional to central funding would be welcome.

Response from the Minister
On further information on the criteria employed by the Executive in determining whether and when to treat income generated by SPTE as additional to central funding, the Executive's support to SPTE, delivered through the Special Grant mechanism, is intended to support SPTE's purchase of services from ScotRail as part of the ScotRail franchise. As indicated in the Special Grant report, the calculation of the level of the grant takes account of various factors, including the payment that SPTE make to ScotRail for the rail services provided. In common with the rest of the ScotRail franchise, that cost declines over the years.
period of the franchise. All other things being equal, the Executive's support to SPTE correspondingly declines as well.

*Extract from the report*
At the meeting on 29 March the Minister for Transport and the Environment confirmed that the grant in aid report being considered did not include funding for a new service to Larkhall (OR col 482). Consequently, the Committee would welcome further information on the mechanisms for identifying and meeting financial pressures on SPTE as a result of new services beginning during the financial year.

*Response from the Minister*
On further information on the mechanisms for identifying and meeting financial pressures on the Strathclyde Passenger Transport Executive as a result of new services beginning during the financial year, the Special Grant is the mechanism for Executive support to meet the cost of SPTE’s purchase of rail services. It would be used to support any agreed enhancement of rail services over and above those specified in the Public Service Requirement of the SPTE element of the ScotRail franchise. In relation to new services beginning during a financial year, it would in principle be possible to take account of that in the Special Grant report for that year if agreement and the necessary financial information was available at the time of preparation of the Report. Failing that, the Special Grant mechanism includes an arrangement under which deficits and/or surpluses from previous years are taken into account in ensuing Reports.
The Minister for Transport and the Environment (Sarah Boyack): Convener, thank you for giving me the opportunity to present this important special grant report to your committee. Although it is the first time that such a report has been laid before the Scottish Parliament, this is the fourth report that has been prepared for Strathclyde Passenger Transport Executive since 1997.

Prior to devolution, this report would have been laid at Westminster, usually at the same time as the Department of the Environment, Transport and the Regions laid its report for the passenger transport executives in England. Now, this report is made by Scottish ministers under section 108A of the Local Government Finance Act 1992 as amended by section 167 of the Local Government etc (Scotland) Act 1994. The section enables the Scottish Executive to provide SPTE with vital financial support for rail services in 2000-01, which were secured by SPTE under the terms of the ScotRail franchise agreement. The report means that the Scottish Executive can pay grant to the 12 councils that make up the Strathclyde Passenger Transport Authority—since the authority does not itself constitute a local authority—and at that point the councils make payments to SPTE and arrangements are put in place to enable the councils to mandate the Scottish Executive to make payments directly to SPTE.

That is the background. In general terms, this grant pays for the estimated shortfall between the ScotRail franchise to SPTE and the revenue generated by fares, together with any other sources of income. It covers the direct costs incurred by SPTE in administering its part of the ScotRail franchise, and the making right of a deficit borne by SPTE as a consequence of its bearing revenue risk in 1998-99.

The other principal source of SPTE's income that is taken into account when calculating the grant level are deeds of assumption, which repay to SPTE the outstanding written-down value of its past capital grants to the British Railways Board and Railtrack. Once we take all those factors into account, our estimate is that the grant that is due to SPTE is £79.12 million.

Last year's report awarded SPTE £83.3 million. The year-on-year reduction is principally a consequence of the declining cost to the ScotRail franchise, as agreed when that franchise was let in 1997. Another factor affecting the reduction in grant is the projected increase in revenue that SPTE has estimated for 2000-01. That amounts to an increase of about £4 million, which takes the revenue generated by the rail services up to £50.8 million. SPTE has to demonstrate value for money when estimating its direct costs, and we have allowed it approximately £1.67 million for costs in 2000-01.

I will take a couple of moments to outline the structure and content of the report, which members have in front of them. The report's principal function is to set out the
purposes for which the grant is paid. I will set out the purposes of the annexes. The first annexe sets out the calculations that the Scottish Executive will make to ensure that SPTE receives the correct sums of money to pay for the costs of the franchise services. It should be emphasised that SPTE’s final bills are subject to audit. The second annexe details the conditions surrounding the payments, including the provision of relevant information to the Scottish Executive and to auditors. Scottish ministers may withhold grant if SPTE has not used the grant for the intended purposes. The final annexe describes SPTE’s role and the method used for the grant calculation.

In coming to a view on the amount that should be paid to SPTE, we have considered a number of factors, including a parallel process that is being undertaken by the DETR for the English passenger transport executives. There are common elements that reflect the GB-wide structures of the rail industry and which are comparable, for example how we estimate revenue from fares, direct costs by the PTEs and the deeds of assumption payments. That does not stop us using our discretion when arriving at agreed figures for the grant, but it helps us to do that from a more informed position.

We have also held detailed discussions with SPTE on the content of the report that I am submitting to you today. It is broadly content with the figures that I have outlined. By underwriting the costs of the ScotRail franchise, this special grant report has already allowed the company to invest in new trains, enhance the levels of service and focus on better customer care, safety and security in what we regard as a close and productive partnership with SPTE.

I am very pleased to be able to recommend the report to the committee. It will enable SPTE to deliver its existing commitments, to build on its achievements and to look for further improvements in the quality and reliability of the services that it supports. I hope that that has been a helpful introduction.

The Convener: Thank you—that was very helpful. Do members of the committee have any questions for the minister?

Mr Murray Tosh (South of Scotland) (Con): I have three questions. Would you like me to ask them all at once?

The Convener: I suggest that you go ahead with all three.

Mr Tosh: My first question is about capital spend in the system. It is clear that this is essentially a revenue item, but SPTE is also responsible for investment—for example, it attempts to introduce one new station per year, provided that there are sufficient resources for that. It is also working on crossrail in Glasgow. How does SPTE fund that kind of expenditure? Does the revenue allocation offer it a way of funding its capital works? If so, will it allow SPTE to make a start on projects such as crossrail?

Adam Rennie (Scottish Executive Development Department): Under the section 94 system, there is a separate capital expenditure allocation for SPTE that is outside the terms of this report. However, a great deal of capital expenditure on railways in
the SPTE area is delivered by ScotRail and Railtrack. The significance of the £79 million allocated through this report is that it feeds through into the franchise and will, therefore, find its way into capital investment by ScotRail—in new electric trains, for instance—or by Railtrack, which is able to finance investment through the track access charges that ScotRail pays to use the railways. The privatised rail system works as something of a financial merry-go-round. Although we are talking about revenue funding from the Executive to SPTE, the money will flow through to places where some of it is deployed for capital expenditure.

**Mr Tosh:** I will come back to you on that.

Somewhere in the paperwork there was an expression that I was unable to find again when I came to formulate my second question. The report, or the assessment of it, said that the services that are funded will be broadly similar to last year’s. What scope is there for growth? Is a resource element built in for any potential decision to action the Larkhall line?

**Sarah Boyack:** Resources for that would not come directly through this report. The main service enhancement that commuters will see as a result of this report is the new class 334 Juniper trains, which will come on stream this year—the 38 new three-car electric multiple units that SPTE is currently putting into commission.

**Mr Tosh:** I was wondering whether the revenue calculation assumed an increased subsidy payment to operate the Larkhall line.

**Sarah Boyack:** No. We are currently considering the business case that SPTE is making for that route.

**Mr Tosh:** My third question concerns the broader budgetary position. I appreciate that papers that we have been given to deal with later relate to last year’s budget and to the Scottish Office rather than to the Scottish Executive, but they do not include a section on either SPTE payments or ScotRail payments. As part of the budget round either this year or in successive years, will we be able to scrutinise that part of the department’s expenditure, or is that outwith the scope of this committee? That is all the more significant given your indication that capital allocations to SPTE are made under section 94. This committee would like to think that it is part of the scrutiny and evaluation process for that.

**Adam Rennie:** As I think the minister mentioned, capital allocations are made under local government legislation, so strictly speaking they are local government expenditure rather than transport expenditure. Mr Tosh has highlighted a problem that affects the way in which the Executive views that expenditure—sometimes it appears in the transport block, but it has a life of its own in the local government system. We can look into the matter, if the minister is happy for us to do so.

**Sarah Boyack:** We can do that.

**Mr Tosh:** I would like to think that we should be scrutinising the transport element of local government funding, as well as challenge funding. Although local government transport funding is part of the local government set-up, it is germane to transport
issues. Will the SPTE and ScotRail payments—which amount to more than £200 million a year—be considered by the Local Government Committee or by this committee? I am talking about the £80 million that will go to SPTE and the £100 million that will go to ScotRail, which are not included in our budget papers.

**The Convener:** I expect that we will comment on those figures, whether they are submitted just to this committee or to this committee and the Local Government Committee.

**Mr Tosh:** I do not think that they are likely to be included in the local government figures, and they do not appear in the budget papers that we will consider later today. I want to know whether this aspect of the department's budget is simply an Executive responsibility or whether the committee has the power to scrutinise it.

**Sarah Boyack:** By bringing forward this special report, we are raising the issue of funding for SPTE and ScotRail before the committee and giving you the opportunity to explore it.

**Mr Tosh:** That is very different from the procedure that we are following in scrutinising the rest of the budget.

**Sarah Boyack:** A couple of minutes ago, Adam Rennie said that we will investigate the point that you have raised. This morning, I want to focus on the report that is before us. You are raising a wider accountancy issue.

**Mr Tosh:** I understand that. The trouble is that this is our chance to consider this budget, which will go off today in the form of an affirmative statutory instrument. We have no come-back on that. For future reference, if we want to be involved in scrutinising this very substantial part of the Executive's expenditure and in the process of examining support for the railways, that must be built into our budgetary calculations, along with the figures for the motorways and all the other aspects of transport that appear in the papers that are before us and that are part of this committee's work.

**The Convener:** As you know, Murray, we are going through all aspects of the departmental budget that relate to the minister's remit, so we will cover the area to which you have referred. There is also a difference in time scale between the contents of this report and the work that we will do on the forthcoming budget figures. The point that you are making is that you want to be reassured that we will have the opportunity to address the detailed issue to which you have referred. The minister has indicated that her view on that will be forthcoming. If we can leave it at that for now, I am sure that the minister will come back to us on your specific point.

**Members** indicated agreement.

**Mr Kenny MacAskill (Lothians) (SNP):** I want to ask two questions, the first of which follows on from the point that Murray Tosh made about Larkhall. Am I right to assume that no funding for the Larkhall line is included in this aspect of the budget for 2000-01? If so, is it proposed that additional funding will be made available for the
Larkhall line for 2000-01, or are we to assume that SPTE will not contribute to that project during this financial year?

Secondly, does the funding that has been made available include an element for in-fill electrification of lines within the SPTE area, or is that not on the agenda?

**Sarah Boyack:** What Adam Rennie said about the process by which service improvements are fed through the railway system and the role of Railtrack in identifying enhancements answers your first question.

I do not think that it would be fair to make any assumptions about the Larkhall scheme. Adam Rennie may be able to clarify that.

**Adam Rennie:** As the minister said, we are waiting for SPTE to submit the revised business case for the Larkhall line. In principle, it has secured support through the challenge funding exercise that was conducted a year or so ago. However, until we receive a revised business case the project cannot go ahead. Mr MacAskill is right to say that there is nothing in this report specifically to cover that.

**Mr MacAskill:** Is the challenge funding money ring-fenced? Would it be available if the package could be put together?

**Adam Rennie:** Yes.

**The Convener:** If there are no other questions on the report, I invite the minister to move the motion.

**Sarah Boyack:** I move,

That the Transport and the Environment Committee in consideration of Special Grant Report No.3 - Special Grant Report on Grant in Aid of Expenditure on Rail Services in the Strathclyde Passenger Transport Area recommends that the Report be approved.

**The Convener:** Does the committee agree to approve the report?

**Members** indicated agreement.
EXECUTIVE NOTE

TRANSPORT AND ENVIRONMENT COMMITTEE

SPECIAL GRANT REPORT ON GRANT IN AID OF EXPENDITURE ON RAIL SERVICES IN THE STRATHCLYDE PASSENGER TRANSPORT AREA

1. Background

This Report is made by the Scottish Ministers under section 108A of the Local Government Finance Act 1992 as inserted by section 167 of the Local Government etc. (Scotland) Act 1994 in order that Strathclyde Passenger Transport Executive (SPTE) can receive central government finance support for rail services secured by them in 2001-2002 under the ScotRail franchise agreement.

This is the fifth such Report since the present arrangement started in 1997.

The Report provides for payment of grant to the 12 Councils which are in whole or in part within the Strathclyde Passenger Transport Authority (SPTA) area. The SPTA is comprised of Councillors from its constituent local authorities and is responsible for drawing up local public transport policies for its area which are implemented by SPTE. It is the duty of SPTE to secure the provision of such public transport services as it considers appropriate for meeting any public transport requirements within its area in accordance with the policies formulated by the SPTA.

Up to and including 1996-97 SPTE secured railway passenger services by entering into agreement with the British Railways Board under section 20 of the Transport Act 1968. From 1 April 1997, SPTE has been a party to the ScotRail franchise and rail services are secured by it through the franchise agreement. The Scottish Executive provides financial support to pay for the railway passenger services secured by SPTE.

Prior to devolution, the report was laid before Parliament at Westminster, usually at the same time as the Department of the Environment, Transport and the Regions laid their report for Passenger Transport Executives in England.

2. Policy Objectives

The Scottish Executive’s policy objective is to support the passenger rail services secured by SPTE, which make a valuable contribution to the transport system within the area covered by the SPTA. The payment of grant is essential for ensuring that current levels of service are maintained and that SPTE meets its contractual commitments with ScotRail.

3. Means of Meeting the Objectives

The Report provides the basis for calculating and awarding a level of grant to the constituent local authorities of the SPTA. They are then under a duty to transfer the grant to SPTE; in practice they mandate the Scottish Executive to make a single payment to SPTE.
The grant enables SPTE to make regular payments throughout the year to ScotRail for a level of service as specified in the franchise agreement. SPTE is a co-signatory of the franchise. It specifies the level of service required of ScotRail in the SPTA area as well as elsewhere in Scotland.

The cost of the franchise was established when it was let in 1997. An annual adjustment is made to take account of inflation. For the purposes of this Report it has been estimated that the value of the **SPTE element of the franchise is around £135 million for 2001-2002.** The revenue generated by the rail services (estimated at £52.88 million for 2001-2002) is insufficient to meet the cost of the franchise, despite the fact that the cost is reducing each year.

Other estimated income and costs are taken into account when calculating the level of grant. SPTE’s direct costs for 2001-2002 (estimated at £1.556 million) are allowed for in the grant calculation, as is any adjustment to take account of the revenue risk borne by SPTE in 1999-2000 (£293,000).

Income generated by **Deeds of Assumption** (i.e. payments to SPTE by way of reimbursement for its investment in railway infrastructure etc. prior to privatisation) is used to help meet the payment due ScotRail. **For 2001-2002 this sum will amount to some £9.6 million**

Having taken account of estimated income and costs for 2001-2002 the grant payment due SPTE will be approximately **£73.84 million** Grant payments are adjusted in-year in the light of revised estimates of revenue.

4. Consultation

There is no statutory requirement for consultation on the report. Nevertheless, detailed discussions on the components of the grant calculation were held between senior officials of SPTE and the Scottish Executive. The Director of Corporate Affairs at SPTE has indicated that he is broadly in agreement with the basis on which the grant for 2001-2002 has been calculated.

Copies of the Report have been distributed to the 12 constituent local authorities of the SPTA and to SPTE.

5. Summary of the Report

The Special Grant Report consists of the following sections:

- An **Introduction** to the Report plus a summary of the basis on which the grant is calculated and allocated;
- **Annex A** explains the manner of calculating the grant;
- **Annex B** provides the conditions under which the grant will be paid;
- **Annex C** explains the main features of the determination specified in the Report.

6. Effects of the Report
The Report ensures that SPTE will be able to meet in full the financial commitments associated with securing passenger rail services for its area from ScotRail.

7. Periodicity

The Special Grant Report is prepared and approved annually. Approval of the Report will allow the first payment to be made to SPTE by the end of April this year.

Paul Smart  
DD-TD3/1  
Victoria Quay  
2-F  
Tel 40865  
15 March 2001