OFFICIAL REPORT
AITHISG OIFIGEIL

Net Zero, Energy and Transport Committee

Tuesday 17 January 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 17 January 2023

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NET ZERO, ENERGY AND TRANSPORT COMMITTEE
2nd Meeting 2023, Session 6

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Fiona Hyslop (Linlithgow) (SNP)

COMMITTEE MEMBERS

*Jackie Dunbar (Aberdeen Donside) (SNP)
*Liam Kerr (North East Scotland) (Con)
*Monica Lennon (Central Scotland) (Lab)
*Ash Regan (Edinburgh Eastern) (SNP)
*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Simon Fuller (Scottish Government)
Michael Matheson (Cabinet Secretary for Net Zero, Energy and Transport)
Jon Rathjen (Scottish Government)
Kerry Twyman (Transport Scotland)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

The Mary Fairfax Somerville Room

Scottish Parliament

Net Zero, Energy and Transport Committee

Tuesday 17 January 2023

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Edward Mountain): Good morning, everyone, and welcome to the second meeting in 2023 of the Net Zero, Energy and Transport Committee.

Agenda item 1 is a decision on whether to take item 3 in private. Item 3 is consideration of the evidence that we will hear today as part of our scrutiny of the Scottish Government's budget for 2023-24. Do members agree to take that item in private?

Members *indicated agreement.*

The Convener: At an earlier meeting, we agreed to take item 4—consideration of a draft report—in private.

Normally, we would move to item 2, which is budget scrutiny. However, the Cabinet Secretary for Net Zero, Energy and Transport has been unavoidably delayed. We will therefore move to item 4, which will be taken in private, and we will recommence in public session when the cabinet secretary has managed to get to the Parliament. Does anyone have any problems with that?

Members: No.

09:33

Meeting continued in private.

09:57

On resuming—

Budget Scrutiny 2023-24

The Convener: Good morning and welcome back to the meeting. Those of you who joined us earlier will know that we moved on to agenda item 4, as the cabinet secretary had been unavoidably detained in traffic.

We now move to agenda item 2, which is an evidence session on the Scottish budget 2023-24. I refer members to the papers under that item. On 15 December, the Scottish Government published its annual budget, which sets out its tax and spending plans for the coming year. We are joined by Michael Matheson, Cabinet Secretary for Net Zero, Energy and Transport, to explore the budget within his portfolio.

I welcome the cabinet secretary and thank him for his reply just before Christmas to our pre-budget letter, elements of which I expect may come up in this morning's discussion. I also welcome the Scottish Government officials Simon Fuller, who is deputy director for rural and environmental science and analytical services, and Jon Rathjen, who is deputy director for water policy and directorate for energy and climate change operations; and Kerry Twyman, who is director of finance and corporate services for Transport Scotland. Thank you all for attending.

We have allocated around 90 minutes for this item. Before we start the questions, I believe that the cabinet secretary would like to make a brief opening statement.

The Cabinet Secretary for Net Zero, Energy and Transport (Michael Matheson): Thank you, convener. I apologise for being delayed in arriving for the committee's session.

The portfolio draws together many of the key strands that are required to deliver on the Government's ambitious and world-leading plans around climate change, biodiversity and the transition to net zero, while continuing to support the most vulnerable in society and deliver a safe, accessible and affordable public transport system.

Our 2023-24 budget comes against a difficult financial backdrop, as we work collectively to tackle the acute cost crisis that faces the country while managing inflationary pressures across our budgets. That has required reprioritisation towards those programmes that most effectively deliver on our key outcomes.

10:00

In the 2023-24 budget, we will spend more than £3.5 billion on transport, including investment of more than £1.4 billion to maintain, improve and decarbonise Scotland's rail network. That includes the provision of £15 million to allow the exploration of a pilot to look into the removal of peak-time rail fares as part of our fair fares review. We will invest £426 million to support bus services and their users, and will provide access to free bus travel for more than 2 million people, including all under-22s.

We will continue to increase our investment in walking, wheeling and cycling, to which we are allocating £190 million in 2023-24, as well as spending £440 million to support our lifeline ferry services, connecting our vital island communities and supporting priority harbour projects.

We are providing record investment to protect and restore nature, including our peatlands, and to tackle the causes of biodiversity loss. We will also continue to support our forestry bodies to deliver the woodland creation target, which will result in 16,500 hectares of new planting in 2023-24.

We recognise that substantial investment is needed to deliver on our waste and recycling targets. In this budget, we are investing more than £47 million to drive Scotland's circular economy, which will reduce reliance on scarce resources and reduce waste.

We are committed to taking strong action to meet the climate challenge and are investing more than £81 million in climate action. That includes investment in the just transition fund, to accelerate the development of a transformed and decarbonised economy in the north-east and Moray.

Finally, we will continue to provide significant budget for energy to make our homes and buildings warmer, greener and more energy efficient, and we will increase funding to support the fuel poor through our heat transition. In the short term, we will continue our fuel insecurity fund next year, which we will provide with some £20 million of investment.

The portfolio budget delivers on an ambitious agenda, but it is not without risk, such as the on-going impact of Covid on public transport patronage and revenue, and inflationary pressures across the portfolio that impact significantly on areas such as pay, infrastructure projects and contracts.

I can, however, reassure the committee that I will continue to reprioritise within my budget, not only to meet our legal, statutory and contractual commitments, but to achieve value for money against a challenging financial position.

I am happy to respond to any questions that the committee has.

The Convener: Thank you. The first member to ask questions will be Monica Lennon.

Monica Lennon (Central Scotland) (Lab): Good morning. I will begin by asking about the fair fares review. There has been a lot of interest in peak rail fares and the announcement about their abolition as part of the fair fares review. Given the public's and the committee's interest in that, could you explain the rationale behind the abolition of peak rail fares? Some people have pointed out that rail travel is most frequently used by men, people who are on higher incomes and older age groups, so can you provide some comment on the socioeconomic rationale behind that decision?

Michael Matheson: The fair fares review stems back to our national transport strategy. It was one of the key priorities that we identified as an area to take forward in reviewing our transport policy. The purpose of the fair fares review is to look at how we can address anomalies within the fare structure, whether in relation to rail, ferries or buses. We are trying to identify ways in which we can remove those anomalies, and to look at how to streamline some of the ways in which fares are set for different transport modes.

That is the background to the fair fares review. However, the national transport strategy was published before Covid. Since then, one of the most significant things that has happened has been the big change in patronage on public transport, which has continued to this point. We have not had full recovery in patronage levels, particularly in relation to rail.

The idea behind having a pilot on removing peak fares is to see whether that would help to make public transport—in this case, rail—more attractive to more people, and to test that as a hypothesis that could potentially have a positive impact. The £15 million that we have allocated in the budget will provide for that.

We are taking forward a range of work to identify the most appropriate way in which to carry out the pilot, as it is important that we do that in a meaningful way and that we can be confident about the outcome and the findings that come from it. Therefore, quite a bit of detailed work is going on behind the scenes involving Transport Scotland and ScotRail to identify an appropriate route for the pilot.

The fair fares review overall should be completed in the spring of this year. We then intend to set out some of the proposals that have emerged through the review process. That will also involve a public consultation exercise, which will allow stakeholders, Parliament and the public to have a say on some of the findings from the fair fares review and some of the work that we are planning to take forward alongside carrying out the pilot on peak fares.

If you look at public transport from a socioeconomic point of view, you will see that the vast majority of people who use it use buses. We are now at a point at which almost half the population of Scotland are able to travel on buses for free. Obviously, that has a significant financial benefit for those who regularly use buses. If you want to focus on areas that will help people on lower incomes to access public transport, buses would be the number 1 priority, given the sociodemographic profile of those who use buses and the significant numbers who use them compared with rail. As I said, almost half the country is now able to travel for free on buses.

Monica Lennon: I am keen to come on to buses but, for the moment, I will stick with rail and the six-month pilot in relation to peak rail fares. Does the Government hope that the proposed measure will help to widen access? Will any work be done during the pilot or in advance of it to make people aware of it so that more people from different backgrounds use rail?

Michael Matheson: We have to be quite careful and take our time in ensuring that we run the right pilot. There is a danger that £15 million could be spent on running a pilot, at the end of which we say that patronage levels have increased. However, would those people be people who were always going to return to using rail anyway or the same people who were already using it? Is the approach making it more accessible to those on lower incomes? We need to be careful to ensure that the pilot is meaningful.

That is why the work that is being taken forward by officials in Transport Scotland and with ScotRail will have to demonstrate how we can ensure that the pilot will provide us with the level of data and understanding that we are looking for. I want us to take our time to ensure that we make the right choices and that we have the right processes in place to be able to evaluate the pilot effectively; otherwise, we will lose that opportunity.

Monica Lennon: That is helpful.

Can you tell us a bit more about how the community bus fund will work in practice, what funds will be available this year and how the fund can help local authorities to establish municipal bus companies?

Michael Matheson: I think that just over £60 million is being provided to help to support bus services. That includes an element for the community bus fund. Provision of £5 million of capital funding and £1 million of resource funding is accessible to local authorities to look at developing initiatives that are aligned with the powers in the Transport (Scotland) Act 2019. They could look at the franchising model or at running their own bus services.

The bus funding that we are providing in the next financial year includes provision specifically to support local authorities to develop proposals and to work through some of the details of how they might want to use the powers in the 2019 act to do that.

Monica Lennon: Thank you. You said how important bus services are to our communities, and in respect of achieving net zero, which is the focus of this committee. Does the Scottish Government feel that enough progress is being made in establishing municipal bus companies in Scotland? What further action can the Scottish Government take to support such a development? We know that there are funding pressures. You have itemised some of the amounts here, including £5 million of capital resource, but I do not know how far that goes when spread across all the local authorities. Are you content with the progress so far?

Michael Matheson: Just to be clear, we are providing £62.5 million to support bus services. Within that there is £1 million in resources and £5 million in capital to support councils to explore providing bus services in their areas.

I would like to have seen faster and greater progress. Bus is the most flexible form of mass public transport. It is a very flexible resource and real priority for us, as reflected in our policy programme. However, it is important that we allow local authorities to consider what is the most appropriate model for their area. Something that works in a big urban area might not be effective in a more rural area.

There are several different options available to local authorities. One model that some local authorities are interested in is franchising: having a franchise service in the local authority area would allow the authority to set out the services that it wants, their frequency and the fare rates. It would give local authorities much more control and remove the need for them to own and run buses, although they would control the service. That takes away a lot of the capital cost that is associated with running a service. We need to allow local authorities the space to identify what would be the best way to go about that. The funding that we are providing is to support the development of some of that work.

It is fair to say that the bus industry is going through a really difficult time because of Covid, and that patronage levels have not fully returned to their previous levels, which is causing financial challenges. It is in all of our interests to find a more sustainable approach. If you were to ask me whether the current model is working in our interests, I would say that it is not. That is why the provisions were put in the Transport (Scotland) Act 2019 in order to give us options. I would like to see some of those options being developed and becoming active models that are being used. I hope that we will start to see that happen over the next couple of years.

The Convener: I have a quick question on that, and I just want to clarify one point. Looking at the future for buses and local authorities, I am concerned that the cost of an electric bus seems to vary between £800,000 and £1 million. Will there be massive demand if local authorities go for electric buses? It will be not just one bus but hundreds of buses that are required. Looking to the future, how will that be funded, if that is your preferred option?

Michael Matheson: It depends. If a local authority is looking to develop an ownership-model municipal bus service, there are all the capital costs that are associated with that, such as purchasing buses, running garages for maintenance and so on. That is why a number of local authorities are looking at the franchising model, where the authority would enter into a franchise agreement with a bus operator to provide the services in its area and the authority would specify the services that it wants—their frequency and timetable. That is similar to the way in which the system has operated in relation to rail.

The Convener: Just to clarify, are you suggesting that it would follow the London buses model more than one in which the councils have ownership?

Michael Matheson: Yes. A few metropolitan local authority areas in England already have bus franchises. I think that Manchester has one and that there are other big cities using franchising models.

I am not saying that that is the model that local authorities should use; I am saying that, from the engagement that I have had with local authorities, some of them are looking more at the franchising model than at setting up their own bus company because of the capital costs that are associated with doing the latter. It is a different model, and the bus support funding that we are providing allows local authorities to look at developing some of those models, to put more flesh on the bones of what they are thinking about doing and to take that forward.

10:15

The Convener: Thank you. Sorry that I interrupted you, Monica.

Monica Lennon: That is okay, convener—not a problem.

Cabinet secretary, you mentioned industry. I am keen to know whether Transport Scotland has undertaken any research or engaged with bus operators to establish whether the level of funding that is provided through the network support grant is sufficient to maintain and develop bus services across Scotland.

Michael Matheson: We are going into a phase in which Covid support for bus operators is coming to an end. We have been engaging with the Confederation of Passenger Transport UK to identify the new bus support mechanism, which will replace the bus service operators grant, in order to deliver a model that is sustainable for the bus service operators and that also works for the taxpayer. That work is currently on-going; I do not think that it has been concluded, but I reassure you that we are engaging with the industry around how we shape that new scheme to manage the transition from the previous BSOG system to a new funding model.

Monica Lennon: Finally, are you familiar with the term “bus deserts”? It is a term that we are hearing more and more. Communities are quite pleased that there is more opportunity for free bus travel, but that is no good to people if there is no bus to get on or it does not run at a time that suits them to get to work or school or to go about their daily business. Is that issue forming part of that on-going research and development? Is the term “bus deserts” worrying to you?

Michael Matheson: Yes; there is no point to having a bus pass if you cannot get access to a bus. I recognise the challenges that communities have. Our rural communities are probably more adversely impacted than some of our urban communities, where there are alternative options. I recognise that.

I made the point that I do not think that the existing model is sustainable, and Covid has brought that into even sharper relief. That is why an alternative approach is necessary, and I think that the powers in the Transport (Scotland) Act 2019 can deliver a much more sustainable and consistent form of public transport.

If we are to make public transport attractive to people, it needs to be safe, reliable and priced at a level that people feel is affordable. Over the next couple of years, there will be a big opportunity to reset the way in which bus services are provided in the country. From engagement with local authorities, I am encouraged to learn that some of them are increasingly determined to consider how they can change the model that is operating in their area. I think that there is the potential to change quite considerably the way in which services are operating.

Monica Lennon: Thank you.

Liam Kerr (North East Scotland) (Con): I have a couple of questions on electric vehicle charging.

The Climate Change Committee considers that we need 30,000 public EV charging points in Scotland by 2030. We currently have fewer than 3,000, I think. Your written evidence to the committee confirmed that you do not have a target for the installation of EV charge points—certainly, not a target of the 30,000 that we understand that we will require. Could the lack of a target have a negative impact on your ability to set budgets for installation and to plan and deliver on a comprehensive roll-out?

Michael Matheson: We have more than 3,000 public charging points in Scotland, which does not include the number of private charging points. There will be several thousand private charging points, including those that have been put in at workplaces and so on, which are not part of the public sector network. There is a distinction. The 3,000-plus figure relates to public sector charging points. I do not know what the figure is for private sector charging points, but several thousand on top of that will be available. That is a growing network as well.

We have committed to doubling the public sector charging network from the 3,000-plus units that we have at the moment to more than 6,000 units over the next couple of years. We have allocated £30 million to support that and we are working with the private sector to lever in an additional £30 million to deliver that expansion of the network. A combination of further private sector investment, which will continue to grow, alongside the public sector investment in the public charging network will give us sufficient coverage for the charging network overall.

I have heard a number of times the figure of 30,000 charging places that the CCC believes is necessary. I am not entirely sure how that figure was arrived at. However, we believe that a combination of public and private investment will provide us with sufficient coverage, alongside encouraging people to make greater use of public transport.

Liam Kerr: On that point about the public and private investment, a written response to the convener's letter of 10 November states that the Scottish Government intends to

"deliver £60m of public and private investment to at least double the size of Scotland's public charging network"

as you discussed. How much of that £60 million do you expect to come from public sector investment, which budget line do you expect it to come from and over what period?

Michael Matheson: It is £30 million that is coming from the public sector budget.

What timeline is it over? Do you know, Kerry?

Kerry Twyman (Transport Scotland): I believe that it is the next year or two.

Michael Matheson: It is part of a programme of work that we have taken—

The Convener: Sorry, Kerry; I did not hear that because your microphone did not come on.

Kerry Twyman: I am sorry.

The Convener: Do not worry: the gentleman from broadcasting will push the button. I just missed it. I am slightly deaf, so it would help if you could repeat what you said.

Kerry Twyman: We have budget availability over the forthcoming financial year and the one after that, depending on how fast delivery is required.

Michael Matheson: We have been working with the Scottish Futures Trust to look at levering in private sector investment. That engagement is on-going. That is where the total of £60 million comes from. It is public and private together, but £30 million comes from the public sector.

Liam Kerr: I understand. I am grateful.

Jackie Dunbar (Aberdeen Donside) (SNP): Good morning to you and your officials, cabinet secretary. I will ask some questions regarding the Scottish Government's response to the report on energy price rises. In your response to the committee's pre-budget letter, you list the home and energy efficiency programmes that have been expanded in response to the queries about the escalation of retrofitting programmes this winter. What has the impact of that been so far on the take-up of those programmes and on fuel poverty rates?

Michael Matheson: We have gone through a period in which, because it is a demand-led budget, demand has not quite kept pace with budget allocation, which meant that the level of demand was not quite using all the budget that was available, whether in the warmer homes programme or the area-based schemes. There are a number of reasons for that. The sector has highlighted to us that a combination of skills and materials had an impact on delivering some of the programmes.

We have tried to raise public awareness. In November last year, we started a publicity campaign to highlight the schemes and increase awareness of how people can access them. Since then, we have seen a bit of an uptick in demand and the industry is trying to develop the breadth of skills that it needs to drive forward some of the programmes. We also plan a further public information programme later this year to highlight to people the scope of the programmes.

The purpose behind the policy is to reduce fuel poverty. The cheapest form of fuel that you can get is the fuel that you do not use, so greater efficiencies are a key part of the policy. Warmer homes Scotland, which is the Home Energy Scotland programme, the Business Energy Scotland programme and the area-based schemes are all about reducing energy demand and making properties more heat efficient. That will continue to be a priority during the coming years, not just this financial year, given the need to reduce fuel poverty and the demand for energy.

Jackie Dunbar: How can we upskill the industry to ensure that we have the proper skills in place?

Michael Matheson: I have made broad mention of skills and materials. Part of the issue around materials is a result of the closedown in some areas during the pandemic and, as demand has started to increase, there have been challenges in accessing some material. However, that is not so much of an issue now.

The other issue is access to skills. There is no doubt that there is a real constraint on labour in the sector. I think that I might have told the committee before that, from a discussion that I had with one of the companies that are involved in the area-based scheme in the central belt, it is clear that it is really struggling to recruit the staff that it needs to roll out the programme even faster. The principal reason for that is because the company lost access to a significant number of staff from eastern Europe.

The company has an apprenticeship-based scheme through which it trains people, and the hope is that they will stay in the industry. However, the company flagged to me—I will paraphrase what I was told—that, even were the budget to be doubled, the company would not be able to utilise that as it does not have access to skills, despite the training that it is doing and its work with industry, because it has lost access to labour from eastern Europe. That constraint has had a direct impact on the company. That is a fact; there is no getting away from that.

We must work with the training organisations, the industry and our colleges to make sure that we are focusing on the skills that are necessary to support those industries. However, labour constraints is still a significant issue.

Jackie Dunbar: You mentioned earlier that the uptake of the programmes was lower than hoped for. If demand continues at those levels, are there any contingency plans for how the funding could be used, or will a low uptake affect the funding allocation in future years?

Michael Matheson: In the past, we have been able to reallocate an underspend and re-utilise that budget, so it is not lost in that sense. However, through greater public awareness and understanding, we can promote the schemes and the programmes to encourage more people to take up the options that are available to them, whether they are for domestic or business premises.

I have flagged up to a number of businesses in my constituency that are experiencing significant energy challenges as a result of the big price increases that there might be loans available to them through the Business Energy Scotland programme, to enable them to invest. One company—I will not mention it by name—is at an advanced stage in that process. It is looking at putting in solar panel systems, which is part of the programme, to reduce its energy costs as it is an energy-intensive business.

Continuing to improve the awareness of the public and business is important. I think that it would be fair to say that the situation during the past year has meant that people now focus on their energy costs in a way that they did not previously—their focus is much greater. There is an opportunity to ensure that we are driving forward energy efficiency as part of reducing future energy demand.

The Convener: The deputy convener has some questions on that subject, and I will bring in Mark Ruskell after that.

Fiona Hyslop (Linlithgow) (SNP): Good morning, cabinet secretary. I am aware and appreciate that, compared with other portfolios, your budget is more subject to market conditions that are outwith your control.

Michael Matheson: Yes.

Fiona Hyslop: On the issue of energy efficiency, we knew when the committee started its inquiry last April—this information was public—that energy prices would increase. I am concerned that it took until November to start publicising the programmes that we had, to increase demand for them. Bearing in mind that we published our report last July, why has it taken so long to ramp up the stimulation of demand when we know that increased energy efficiency is crucial because of the current energy crisis? If we cannot do it in the year that we have had, how convinced are you that your budget allocation, however large it is, can be utilised properly to get the pace of home energy efficiency that we need?

10:30

Michael Matheson: Earlier last year, we ran a public information campaign about the range of help and support that is available to people having challenges with their energy bills. Within that, there was provision for energy efficiency measures. It was part of a wider Government programme. What we ran in November was very specifically about trying to create greater awareness of this particular programme, because the level of demand was not in line with what we expected it to be. I do not know why that was the case. It is not that we were doing nothing about making people aware of the help that was available, but we did even more in November and we will do more this year.

I do not know whether it was partly about the timeline between people thinking about the impact and then getting their bills and seeing the impact. In my personal circumstances, there was almost a lag, in that you knew that things were going to become much more expensive before the costs actually hit you. That might have had a bit of an impact, in that people were thinking about it before it happened and then it was possibly not as bad as they thought it would be—I do not know.

However, we had a public information campaign last year, including the website that Shona Robison developed, about the help and support that were available to people in relation to that wider cost challenge on the community side. However, what happened in November was very bespoke and specific in relation to trying to get more people to understand what was available on the energy efficiency side. I hope that that reassures you that it was not a case of doing nothing; it was just that we did something much more bespoke in November because we had not seen the level of uptick that we had hoped for.

Fiona Hyslop: I also have a question about the national energy agency from a budget point of view. Will new funding be made available to finance that agency or will funding be top-sliced from other dedicated heat and energy efficiency funding programmes?

Michael Matheson: We are getting into the space of negotiations with the finance secretary on whether there will be new funding for it. Right now, it is absorbed in our existing funding, within the climate change and energy side of Government, because, as you know, it is working on a shadow basis at present.

We have the strategic board in place. Over the course of this year, it will be setting out clearly the actions that we need to take in order to create the dedicated body. Once we have a fuller understanding of what exactly that structure will be like, we will be in a position to look at how we finance it. Whether that will be a combination of new funding and existing funding or whether it will come from existing funding will be determined once we get to that point. However, at present, the funding is being met from our existing budgets.

The Convener: Mark Ruskell is next and then I will come back to Fiona Hyslop.

Mark Ruskell (Mid Scotland and Fife) (Green): You mentioned earlier the importance of increasing the scale of the roll-out of area-based schemes. How important is the national energy agency in helping to deliver that? Is it possible to accelerate the development of the national energy agency? It feels as though we could be waiting some time before it is up and running to full capacity and it can marshal some of the opportunities that are there for energy companies, councils and the private sector to come in and do things at the scale that we need.

Michael Matheson: It is important to understand that it is not as though nothing is happening. Although it is in-house at present, a considerable amount of work is being done by officials, working with local authorities, housing associations and other organisations on how we can look at collectively working together to deliver not only some of these energy efficiency programmes but alternative heating systems.

We have created the heat networks unit within the directorate, which is playing an important part in helping to bring together expertise around local authorities and housing associations, which are looking at heat networks as well. The national agency will be able to take that up on to a much more national scale through dedicated resources, staff and expertise, to support local authorities and housing associations in taking forward these policy areas.

We are trying to avoid getting into situations where local authorities have to reinvent the wheel each time they try to design a heat network or where housing associations have to reinvent the wheel to get heating efficiencies. We want to bring together the expertise and skills base that can support them to bring that work forward.

Can we do that quicker? We have ambitious targets on heating buildings. The Climate Change Committee’s report from the end of last year showed the need for us to ramp up our action in that area. If there are areas where we can speed up that process, we will not be slow in making sure that we do that.

I hope that that reassures you that a considerable amount of work is going on; we are not waiting for the standalone agency to be created before we drive that work forward.

Fiona Hyslop: I move on to hydrogen. The hydrogen action plan states that

“production of renewable hydrogen from onshore renewables by the mid-decade ... is the key focus of our hydrogen investment programme in this Parliamentary term”.

Does that mean that green hydrogen is taking priority over blue hydrogen in terms of funding from the Scottish Government, or do you see blue hydrogen as a bridging technology to help support green hydrogen?

Michael Matheson: That area has changed dramatically over the past year. If we were having this discussion last year, I would be saying that blue hydrogen would probably play a big part in the early development of the hydrogen economy. What has significantly changed over the past year is that, because of gas prices and so on, there has been a big switch in the sector to being much more focused on green hydrogen, because its potential production costs have dropped significantly. Companies that previously focused on blue hydrogen are now looking at going straight to green hydrogen, because the cost base has dropped sufficiently.

Blue hydrogen will continue to play a role in the energy transition in some of our big energy intensive sectors—for example, grey hydrogen is used in Grangemouth, but Ineos has plans to move towards blue hydrogen, which is aligned with the Acorn Scottish cluster project. For some companies, blue hydrogen will be a bridging technology before they move to green hydrogen.

The focus over the coming years will be much more on green hydrogen, not only because that is what is happening here but because that is what is happening on a Europe-wide basis. For example, the REPowerEU programme has a big focus on low carbon and on green hydrogen being the future priority; blue hydrogen is seen as being a bridging technology in some energy intensive sectors.

That is the pattern of travel, which is why you can see in the hydrogen action plan that our focus is much more on green hydrogen, particularly because of its export potential. There is significant potential for us to be a major exporter of green hydrogen and hydrogen derivatives such as ammonia and methanol and to develop liquid organic hydrogen carriers. We are involved in work on that with partners in Rotterdam and the Net Zero Technology Centre. I see green hydrogen becoming more of a focus and playing a bigger part than I would have said this time last year.

Fiona Hyslop: Bearing in mind my previous remarks that market conditions have more of an impact on your portfolio than others, and sticking on green hydrogen, one issue is how we in Scotland benefit from the potential jobs. Will your budget be allocated for attracting inward investment, depending on market conditions—obviously, we have European and other competition—or will you allocate funding to help Scotland-based companies to produce hydrogen in order to secure jobs as part of the just transition from the traditional energy sector?

Michael Matheson: The first thing to say is that the gateway to delivering on the hydrogen economy is onshore and offshore wind providing cheap renewable electricity. Our priority has to be to make sure that we create the opportunities to produce that renewable electricity. That is one of the areas where Scotland is more advanced than many other European countries.

Many countries in Europe—and beyond—are setting very ambitious targets for the production of green hydrogen but, actually, many of their renewable energy projects are not in the consent process, have not been consented to, or do not have leased sites. They are quite a bit behind us, which is why, in some ways, we have an advantage. There are European countries that are in a good place but, for example, the ScotWind leasing round has already been completed, and we are one of the few countries that have got to that point. Norway, which also wants to go into green hydrogen production in a big way, has still to do that leasing round, so it is probably about two years behind us in that process.

That renewable energy element is really important. One of the elements of the budget is that we are creating much more resource in my directorate to support the consenting process for onshore and, in particular, offshore wind, so that we can deal with consent effectively and efficiently, while also dealing with the environmental aspects that go alongside that.

On the hydrogen element in particular, we are taking forward a number of pieces of work. It will be really important that we become not just a production basin but a manufacturing centre for the components, such as electrolysers, that go into the production of green hydrogen. That reaches outwith my portfolio, although I have a direct interest in that, which is very much within the economy side. My colleague Ivan McKee and I work very closely together on how we can maximise the opportunity not only to attract inward investment but to support businesses in Scotland that could pivot into hydrogen production. Last year—I think that it was last October—we published our hydrogen prospectus, which was a proposition that set out the opportunities for businesses in Scotland and beyond to look at manufacturing capacity that is being developed in Scotland. We have had quite a bit of development on that through Scottish Development International and Scottish Enterprise at an international level, which has attracted quite a bit of interest. SE account managers have also taken forward work with businesses that have engineering expertise but are not necessarily in the hydrogen space, to make sure that they understand that they could pivot into that sector. Last October, we held an event in Edinburgh that brought together interested stakeholders and companies from both the energy and manufacturing sides to discuss their prospects and to look at how we can scale up that opportunity. A considerable amount of work is now going on. You probably know SE's six key priorities better than I do, but I think that hydrogen is one of them. From the point of view of SE and SDI, as well as trade policy, a significant amount of resource has been put into hydrogen, as it is a major strategic priority for us.

In my portfolio and in the trade portfolio, we are taking forward a specific piece of work to make sure that we dovetail all of that work collectively. We have a further meeting on that this month. We are combining the key elements of production and capacity on the energy side in Scotland, the businesses that want to go into it and trade, investment and business growth opportunities, so that it all starts to knit together in a way that is much more consistent in maximising the opportunity.

I am sorry if that was a long answer.

Fiona Hyslop: That is very helpful for the wider context of the committee's work.

My final question is on budget. Given green hydrogen production's reliance on offshore and onshore wind, is it fair to say that spending on the enablers for your hydrogen strategy to be effective is not within your budget? The prohibitors could be skills, planning consent—as you have talked about—and domestic company development, so that Scottish companies can develop capacity. Those areas lie in the economy portfolio. What confidence do you have that the priorities are there for that spend to enable the energy generation that we have talked about? I suspect that those budgets are under more pressure than your budget.

Michael Matheson: You mentioned three areas: skills, companies at a domestic level, and planning. Planning is not so much of an issue, because planning elements will rest largely with us. Quite a number of the big offshore developments that are planned over the course of the next 10 years have potential hydrogen projects associated with them. I am very conscious of the need to make sure that we have the right support in place for that. Some changes are taking place within my directorate to facilitate that, including recruiting additional staff and bringing in a strategic lead at director level to drive that forward. That is happening just now and the budget provides an additional £5 million to support the development of that element. Those are the planning aspects that sit within my portfolio.

10:45

There is a challenge around skills, not just here in Scotland but globally. During the past year to 18 months, in countries across the globe, particularly in Europe, the scaling up of offshore and onshore wind has been quite marked. It became more of a priority during the energy security issues of last year.

There will be a number of challenges here. There will be a skills challenge because of the restrictions on access to labour. There will also be a materials challenge in that access to some of the raw materials that are needed for the manufacturing of these products will become constrained because of the level of global demand. There will be a capacity constraint in relation to industry manufacturing some of the components, given the level of demand that might be experienced. That is why, in my view, having a clear and effective consenting process is extremely important to give the industry confidence that the process that we have here in Scotland for rolling out these projects is a priority area, which means that they can be taken forward in a timely fashion.

I do not want to speak for Ivan McKee on this, but it would be fair to say that I am also doing a lot of trade work because, during the past year to 18 months, the area of energy has just increased dramatically. We are receiving demands from ministers of overseas Governments to meet us, and the number of businesses in Scotland that are looking to invest overseas has increased dramatically. When I was in Japan in November last year, a lot of the talk was about accommodation of inward investment from Japanese companies here, but also Scottish companies investing in south-east Asia and renewable energy as well. That has scaled up significantly. I know that Mr McKee has found that challenging because of the demands that it is placing on him, which is why I am doing some of that work, and other ministers have also been involved in picking up some of that demand.

On the budget provision, at this stage I am comfortable that we have sufficient budget provision to meet demand. We need to refocus some of the staff who are involved in some of the broader energy work on the areas that we need to prioritise rather than looking for any extra resource. The work that we are doing just now to bring together the trade, investment and energy aspects is all about trying to knit them together much more effectively to be more focused and more efficient in the use of resources.

Mark Ruskell: I want to switch to the process of the development and climate proofing of the budget and the implementation of the joint budget review on climate. I welcomed getting the letter yesterday updating us on the progress that the Government is making on that.

I want to ask you about each of the three strands. The first strand that was introduced into this year's budget is the climate change narrative. I welcomed seeing not just a carbon assessment but much more of a narrative that explains some of the policy choices that were made this year. What are your reflections on that? How might that narrative change in future as more work is done to develop more data?

Michael Matheson: That was a good piece of work, although it has taken some time. It was led by the Fraser of Allander Institute and it is a joint piece of work between Government and Parliament. I am keen to make sure that, across Government, there is much greater transparency around spend on meeting our climate change targets. In this year's strand 1 work, if you take the carbon taxonomy that has been used, you can see that the proportion of spend on low carbon has increased while the proportion of spend on high carbon factors has declined. We are starting to get greater transparency around that.

That is the challenge for the high-level strand 1 work that we have this year. That provides a bit more detail, in overview, of how we are spending our resources in tackling climate change. Strands 2 and 3 will give us much more detail and will also make it more bespoke to individual portfolios.

I am conscious that a lot of the burden falls on this committee when it comes to climate change. However, I would have thought that the Economy and Fair Work Committee would have a particular interest in what is happening in the economy portfolio on investing in tackling climate change—likewise, other portfolios. It is important that we get strands 2 and 3 delivering that level of detail, so that individual committees beyond this one will be able to see more clearly exactly what an individual portfolio is doing to deliver on our climate change targets, and how it is investing in funding to support that.

That is what strands 2 and 3 should help to deliver. I think that strand 1 has been helpful in being applied to this budget, but there is clearly more that we need to do. That will be done over the course of the year.

Mark Ruskell: In terms of strand 2, the taxonomy feels a bit rough and ready at the moment and it is very much restricted to capital rather than looking at resource spend and what that does. The future taxonomy will be the next big addition to the budget process—the next tool that committees such as this one will have—and it is going to have a greater breadth, covering both capital and resource spend, but what kind of depth can it get into? Will it be possible for us to look at individual capital infrastructure projects and say, "Oh, we can see now not just what the climate impacts will be in terms of construction but what that contributes in terms of net zero"? Will there be a clarity at the appropriate level of budget spend so that we can get our heads around the direction of travel of spending and what the choices have been within that?

Michael Matheson: We will have to wait to see how that work takes place over the year and whether we can break things down to the level that you are referring to—not just the capital investment programme but right down to the construction elements and so on. I do not know just now. We will have to see how that work is developed and taken forward in strands 2 and 3.

The intention is that strand 2 will expand the taxonomy and give more data and understanding to provide much greater scrutiny of what is happening in different parts of the Government and its spend in tackling climate change. Therefore, strand 2 should give us an extra layer and give committees an extra depth of understanding on that.

Obviously, strand 3 is to give us the net zero assessment, so that we can have that level of assessment, which will be really important. Again, on the back of the Climate Change Committee's report published at the end of last year, which talked about having much greater transparency between policy options and choices and their impact, it is important that we have that in the budget so that you can see where we are spending and investing and how that is impacting on climate change.

Between strands 2 and 3, I would hope that we will have a much greater level of detail. I do not know how granular that will be, because I am conscious that it is a new area. It is being developed and managed. The more granular it is, the better. I think that it will help us all in scrutinising the budget, and in policy decisions that we take forward. I hope that we will get a level of detail that committees feel is sufficient for them to properly scrutinise the overall budget allocations.

Mark Ruskell: I appreciate that the work with strand 2 will be taken forward in strand 3 to give much more granularity. You mentioned the climate change plan and the recommendation from the Climate Change Committee that the next climate change plan, which we will develop this year, should set out explicitly the carbon impact of certain policies. Does that give an earlier opportunity to take things that will go into the draft climate change plan, in particular, and assess those through the budget process?

If the plan has to be very clear about what the carbon impacts of policies will be, surely it would be relatively simple to extrapolate from that and say, "If we are spending on this particular policy in a given year, this is what the climate impact will be." Does that give us a starting point with the climate change plan this year, whereby we can start to build some of that work into the budget, so that we can see a follow-through from the plan right the way through to spend?

Michael Matheson: I think so—I think that those two things come together, although they might not be entirely aligned time-wise, in a way that will be helpful in providing that level of scrutiny.

I very much hope that, when the draft climate change plan update is published later this year, we will be in a position, if we have strand 2 and strand 3 in place for the next year's budget, to be able to see exactly how the budget delivers on the climate change plan, which will have to be much more detailed, for different portfolio areas. That will mean that, whether on transport or agriculture, we will be able to set out very clearly the actions and the policy impact. The question will be whether strand 2 and strand 3 allow us to provide the level of transparency on the budget process that aligns with that. The committees will then be in a position in which they can see clearly whether what is said in the climate change plan fits with what is set out in the budget. I think that, ultimately, that is where committees and the Parliament want to get to; it is certainly where I want to get to, so that there is transparency right across Government.

Mark Ruskell: That would be welcome. Previous committees have looked at the climate change plan and found it absolutely impossible to work out where the cuts in emissions were coming from. At the time, we were told that, because the TIMES—the integrated MARKAL-EFOM system—model that is used is extremely complicated, there are so many interdependencies that it is impossible to work that out. It would be good to have transparency in future.

This area is recognised as being one of international interest. The Fraser of Allander Institute's report highlighted a number of international examples. Is your department continuing to make connections with other Governments, including the New Zealand Government, about their approach and how we can learn from one another? In some ways, it feels as though we are groundbreaking, yet we are also learning from Governments that have already broken some turf in this area.

Michael Matheson: The Deputy First Minister and I are taking forward that work on a joint basis. Obviously, the Fraser of Allander Institute is the lead body. I am not sure what engagement it has had with other partners. From the briefing that I had with the institute, I know that it had been looking at international examples. There are a limited number of international examples in this area. I do not know whether there are plans for further engagement in that respect for strand 2 and strand 3, but I am happy to take that away to find out whether further work is being done on the approach that other countries have taken to their budget process.

The Convener: Cabinet secretary, there is a budgeting issue that I would like you to clarify. I asked the acting finance secretary which budget line would be reduced in order to allocate, as he wishes to do, a further £60.9 million for hulls 801 and 802 in the draft budget. However, in his answer, he completely failed to address that point, so I am still none the wiser. Given the pressures on the budget for your portfolio and especially the transport aspect, which the deputy convener rightly identified earlier, can you help the committee to understand whether that £60.9 million has come out of your budget?

Michael Matheson: I am not sure what that £60.9 million is; I would have to look at the answer that the finance secretary provided. I would need to go away and check that. Off the top of my head, I do not have that information. Kerry Twyman might be able to say more about that.

Kerry Twyman: It would not have come out of a particular part of the budget. This time, we did the capital process in such a way that there was a full reprioritisation. As you will all be aware, rising inflation has led to cost increases across the board. We have therefore looked again at the profile of capital spend and areas where there might have been some slippage in delivery because of shortages of labour and materials, which we discussed earlier.

A full reprioritisation exercise was carried out. Where additional budget was required in other portfolios, it will have been for the DFM and exchequer colleagues to look at where there was availability, but it would not have been specifically pinpointed to come from any one bit of the net zero, energy and transport capital portfolio, for example. We would therefore not be able to give you a specific answer on which budget line that came from.

11:00

Liam Kerr: I am grateful for that response. Can you help me to fully understand that? There was an exercise that looked across the portfolios for, let us say, underspends—that is my word and you will correct me if it is not the appropriate one—and then moved that money from those various budget lines into the £60.9 million budget for the ferries. Is that a fair reflection of what you said?

Kerry Twyman: It was probably not as specific as that. It was probably more of a reassessment of where capital needed to be spent and what our requirements were for the year. Based on that analysis, the DFM, with assistance from exchequer colleagues, would have looked at the allocations for each portfolio. All that we would have seen as a portfolio was what our allocation was for the budget year 2023-24, and we will then have assessed our priority and legal commitments against that and allocated accordingly.

As I said, I could not give you an answer as to how that work was done in the directorate-general economy portfolio, which is where these costs sit. It will have received its own allocation and allocated accordingly, including that £60.9 million.

Liam Kerr: I understand. Thank you.

Ash Regan (Edinburgh Eastern) (SNP): Good morning. Given that the Scottish Government has set out its intention to grow renewable electricity production, do you agree that it would be useful to improve the infrastructure? I am thinking in particular about the north and the north-east of the country, where the infrastructure is obviously unable to support the transition that we are talking about. A number of roads require to be upgraded, potentially for that purpose, but also to address safety concerns.

The budget line for motorways and trunk roads stands at £801 million, which represents a reduction from the previous two years' allocations, and the line for roads improvements also shows a reduction. We have had a conversation about the financial context, which I understand, but will you set out for the committee what has been prioritised—obviously, I acknowledge the reduction in the budget—and what has been deprioritised?

Michael Matheson: There has been a shift, which reflects the challenging capital budget allocation that we face. Not only was there a reduction in the capital allocation to the Scottish Government from the UK Government, but we have to meet significant inflationary pressures within the capital allocations. Some aspects of construction inflation are operating at 17-plus per cent. Not only is that a more challenging level of capital, but its buying power is weakened as a result of the significant inflationary pressures. We have had to balance some of that.

The reduction in the budget for motorways and the trunk road network is about reprofiling some of the life-cycle maintenance work that is carried out. There is some reprofiling of some of the structural repairs programme that was being taken forward, and some aspects of capital land and works have also had to be reduced.

A couple of areas have continued to be a priority. For example, the access road to Argyll and Bute from the A83 at the Rest and Be Thankful continues to be a priority, so allocations have continued to allow the work to be taken forward. There has been an increase in funding for the road safety programme to continue to build on the progress that we are making on road safety measures.

By and large, that is a reflection of the challenges with regard to capital allocations. It is not the case that these things will not happen, but they will take place over a longer period. We are having to stretch out some of the life-cycle maintenance work.

Ash Regan: That answer is helpful. Are you able to share that next-level-down detail with the committee so that we are able to look at it?

Michael Matheson: Yes. I am happy to provide any further information that would be useful.

Ash Regan: Thank you.

The Convener: I am looking round the table to see whether anyone has any other questions. As no one does, I will ask a couple of questions. I remind the committee that I have an interest in land and in a farming partnership, because my first question relates to trees and therefore to land use.

Cabinet secretary, you said in your opening statement that you are looking to increase the amount of area that is planted. Will you explain how your figures will achieve that, please?

Michael Matheson: The additional allocation that we have made this year for the tree-planting programme is to see 16,500 hectares of tree planting, which will be taken forward by Forestry and Land Scotland. When you ask me specifically how we are going to achieve that, do you mean in terms of areas or something else?

The Convener: I am asking how the budget that you have set for that, which I believe is just shy of £103 million this year, will achieve that planting growth of 16,500 hectares.

Michael Matheson: There is a combination of funding. There is an additional allocation for part of the forestry programme to help to secure delivery of that growth. It is a combination of the organisation's existing budget and the additional allocation that we have made. Simon Fuller can say a wee bit more from a forestry point of view on how exactly we are going to do that.

Simon Fuller (Scottish Government): The figure that you refer to, convener, of £102 million is funding for Scottish Forestry. Within that amount, the woodland grant scheme, which Scottish

Forestry administers, is approximately £77 million next year, which represents growth of around 11 per cent compared with this year. It is for that growth, the wider actions of Scottish Forestry and the separate funding that Forestry and Land Scotland receives that we would seek to achieve those targets.

The Convener: Sorry, Simon, but you have now confused me. My understanding is that £102.3 million was set aside for Scottish Forestry and £23.7 million was set aside for Forestry and Land Scotland, bringing a total of £126 million into that area. Is that what you have just said?

Simon Fuller: That is correct—yes.

The Convener: Those figures are correct.

Simon Fuller: Yes.

The Convener: Okay.

Planting is really important if we are to reach net zero, but we are at a stage in this country where we will not have enough harvested timber by 2035 to meet the demands of the sawmills for building and other materials. We have met planting targets in only one of the past eight years.

Cabinet secretary, the increase that you have projected in the budget for forestry planting actually represents a decrease on last year's budget of about 10 per cent per hectare. If there is a decrease per hectare in the amount of money for planting, how are we going to increase planting, given that costs have obviously gone up?

Michael Matheson: The expectation from our discussion with Forestry and Land Scotland is that the 16,500 hectare target can be managed within the budget settlement that we have provided.

The Convener: I am slightly concerned if that is the expectation given that Forestry and Land Scotland has failed to meet any of the planting targets with the budgets that it has already had. If you are cutting the money per hectare, you must be reducing the number of hectares that will be planted, because people are not going to plant more for less when costs have gone up.

Michael Matheson: Based on the budget allocation that we have made for this particular element and the discussion that we have had with Forestry and Land Scotland, the expectation is that it can meet that target of 16,500 hectares.

The Convener: We could argue whether that will be achieved or not. Time will tell—

Michael Matheson: It will.

The Convener: In a year's time, we will see whether we have reached the 16,500 hectares that are planned.

I move to railways. The cost of running the railways has gone up; the major public transport projects budget has gone down, rail franchise costs have gone up, and the costs of rail infrastructure have gone up marginally. Are you comfortable that a budget of £1.4 billion will be sufficient to run the railways, given the peak fares reduction that you mentioned and all the other costs, while passenger numbers are coming down?

Michael Matheson: Passenger numbers have increased, but they have not returned to pre-pandemic levels. I emphasise that the change to peak fares is a pilot project: the £15 million will be used to run a pilot on particular routes for six months in order to test out whether removing peak fares will have an impact on people's travelling behaviour on the railway network. It will not remove peak fares across the network.

The Convener: It may be a pilot, but it will cost £15 million—that is the estimate that we have been given. Is that within the budget of £1.4 billion?

Michael Matheson: Yes. The £15 million is within that budget and is for the purposes of the pilot specifically; it would cost more than that to remove peak fares across the whole network. Before arriving at a policy decision about whether we work to remove peak fares across the network, we are looking at the cost of that and whether there is budget allocation to provide for it.

Railway patronage has not returned to pre-pandemic levels, and neither has the farebox income, which is why we are having to put in additional investment in order to help to support ScotRail and the Caledonian sleeper service. There is budget allocation in the £1.4 billion to achieve that. Network Rail's fixed rail network charges have increased, which adds to the cost base and has an additional cost impact; there is budget allocation within the £1.4 billion to meet that. There is also provision in the budget to continue with enhancements, such as the Levenmouth rail link project between Thornton and Leven.

However, given the capital constraints that we are facing, there will not necessarily be the same level of enhancements and expansion of the rail network in future that some people might wish to see; we do not have the capital provision to do that. We believe that the budget allocation is sufficient in order to meet what we have to do in the next financial year. However, we are having to deal with a significant number of inflationary pressures from the cost base and the fixed access charges from Network Rail, too.

The Convener: I am slightly confused. What was the income from rail tickets on the railways last year?

Michael Matheson: I do not have that information in front of me. I would have to check and come back to the committee on that.

The Convener: I do not see that figure in the budget. You are saying—all in one breath—that you will bear the cost for the loss of income out of the existing budget, yet you are not showing the income from tickets in the budget.

Kerry Twyman: The line that you see in the budget for the rail franchise subsidy is effectively a net figure. It is the net subsidy that we provide to ScotRail, which covers its costs net of any revenue that comes in, including ticket revenue and revenue that is associated with some of its properties, for example. It also includes the fixed track access charges that the cabinet secretary has referred to that are paid directly by ScotRail to Network Rail. That is a net figure. Within that figure, you will see that the £15 million has gone directly into the subsidy line in order to cover the loss of income that we anticipate from the peak fares pilot. It also includes uplifts for ScotRail to cover inflationary pressures and the fixed track access charges, which are linked to inflation.

The Convener: To follow that back, would the franchise charges before have been considerably less than the figures that are shown in this year's budget?

Kerry Twyman: Indeed, because revenue would have been much higher.

The Convener: Was it?

Kerry Twyman: Yes.

The Convener: You are confident about that. Perhaps I will need to look back at those figures, as I cannot find where the £184 million in ticket revenue goes. You seem to be saying that it has been offset in the budget.

Kerry Twyman: Exactly. If you were to look at ScotRail Trains' accounts, you would see its costs laid out and the revenue that is coming in, as well as the net figure, which, as I have said, is covered by the subsidy from the Scottish Government along with the fixed track access charges and various other elements.

The Convener: So, if I look at the 2019 accounts, I will see that the £184 million is, basically, a 60 per cent reduction in what ScotRail was receiving in 2019, on the basis that we have lost 40 per cent of passengers, according to the figures that we have. I will need to follow up on those figures, but I will take that up with the cabinet secretary.

Cabinet secretary, on that basis, and on the basis that it is costing us more to run the railway but we have slightly fewer services, do you think that, today, the public performance measure for the railways is at a sufficiently high standard?

Michael Matheson: It is important to correct something that you said. We have reduced services across the United Kingdom because of reduced demand. There is no point in running empty trains that are not utilised. We have not chosen to reduce services; we have done so because of a lack of demand.

Pre-pandemic, we were going through a process of ramping up services—we were delivering more services per day than we had historically, the rail network was being expanded and service frequency was being increased—but we had to ramp that down during the pandemic. However, patronage has not returned to normal levels, and there is no point in running what are often referred to as ghost trains, which are trains that no-one is on. Those trains would have brought in revenue prior to the pandemic, but now they do not.

11:15

The Convener: I take the point that there is no point in running empty services, but if there are fewer services then railways are less crowded, so there is more chance that the PPM will be met. My question is, are you reaching a satisfactory PPM with the budget that you have?

Michael Matheson: The public performance measure is not often closely associated with the financing of the frequency of services. It is often affected by the impact of infrastructure failure on the operation of rail services or by staffing levels. I am confident that we have sufficient funding in our resource allocation to allow ScotRail to be able to sufficiently staff services.

However, as the committee will know, historically, infrastructure failure has the biggest impact on PPM. The question might therefore be whether sufficient investment is going into infrastructure to reduce the adverse impact that its failure has on PPM. That continues to be an issue, and my view is that Network Rail can do much more to get value for money from the amount of investment that goes into rail services infrastructure and the costs associated with that. Anyone familiar with the detail about the rail industry knows that infrastructure failure is the factor that has the greatest impact on PPM. Reducing the number of failures requires investment from Network Rail, not just by introducing new technology and updating and digitalising systems, but also by ensuring that there is a proper maintenance programme to reduce the risk of failure.

Is there more that we can do to help achieve the PPM? Yes. Industrial action will be having a big impact on the PPM just now. However, I am confident that we are making enough investment in ScotRail to allow it to operate the level of service that there is a demand for, and also for it to have the staffing levels to achieve that. However, Network Rail could do more to get greater efficiency from infrastructure investment.

The Convener: Okay. My problem is that on 21 February 2019, the First Minister as good as said that the ScotRail franchise should be judged on passenger satisfaction targets—the PPM. On 26 June 2018, Humza Yousaf, who was the Minister for Transport and the Islands at that time, said:

> "The set of targets contained in the ScotRail franchise is a challenging but realistic contractual regime to ensure that the punctuality of our rail services is at the forefront of ScotRail's priorities."—[*Official Report*, 26 June 2018; c 4)

That put pressure on the franchise based on PPM. One of the reasons for ScotRail's nationalisation was the fact that it did not meet its PPM target. The problem is that the PPM of the railways for December 2022 was 86.2 per cent, which is lower than the PPM during the same period in 2019. It was running more services at that time, and achieved a better result, so I have to question whether the budget is realistic and people are getting value for money.

Michael Matheson: I think that you are confusing a number of different things. The public performance measure does not measure passenger satisfaction; it measures the punctuality of the train service. Through Transport Focus Scotland, ScotRail runs a passenger satisfaction survey every year—I would need to come back to you with the exact detail on that.

I recognise that a lot of passenger satisfaction will be linked to the punctuality of the train service, but there is a real danger in comparing the PPM performance for, say, January this year with the PPM performance for January 2022, because a whole range of different factors could have an impact on that. It is not about resourcing. Adverse weather could have had an impact, or there could have been industrial action taking place at the time—those are events that are largely outwith the control of the rail network. Therefore, making such a comparison is not meaningful.

If you look at the PPM performance over the course of a year, there will be months that are more challenging. Traditionally, the winter months are more challenging due to the impact of weather events on rail infrastructure, such as freezing points or slippage on the rail network, which cause problems for Network Rail and have an impact on trains. The vast majority of the impact on ScotRail's PPM performance is due to infrastructure challenges rather than to a lack of rolling stock or crew, so—

The Convener: Cabinet secretary, I absolutely understand that the PPM shows the percentage of trains that ran their entire journey, called at all scheduled stations and arrived at their terminating station within five minutes—or for long-distance services, 10 minutes—of their planned arrival time. However, the problem is that you are running fewer trains on a service that is less crowded and your performance is worse than Abellio's. I am just asking whether that is acceptable to you, with an increasing budget.

Michael Matheson: No, it is not acceptable, but a large part of the reason for that is infrastructure failures on the part of Network Rail. That has the biggest impact on operating the rail network. There is no getting away from that; it is standard understanding—and it is recognised—in the industry. If you do an analysis of the factors that have an adverse impact on PPM performance, you will see that the majority are infrastructure matters.

The Convener: I shall go back—

Michael Matheson: There is a continued failure of Network Rail to provide the necessary level of resilience that would allow operators to achieve a higher PPM performance. Let me give you an example—

The Convener: Who runs Network Rail in Scotland?

Michael Matheson: Let me finish this point, because I have a very good example. You might remember when we had difficulty with the high-speed trains coming in because Wabtec, which was responsible for the refurbishment of the high-speed passenger trains, was way behind in the programme. That had an impact on the availability of seats on particular routes, which led to overcrowding challenges. That was a ScotRail problem, because it was about rolling stock and the ability to have seats available. However, when it comes to issues such as points and line challenges, it is about infrastructure. Most people in the industry know that.

Right now, ScotRail does not have a rolling stock challenge or a crewing challenge; it has an infrastructure challenge. That challenge lies with Network Rail; we have an unacceptable level of performance because Network Rail views Scotland as a region and so does not make the level of investment in Scotland that would reflect the fact that we are running a national railway. Network Rail's investment programme treats Scotland as a region.

The Convener: Is Alex Hynes still on the board of Network Rail and does he run Network Rail Scotland, for which he gets a salary?

Michael Matheson: He is employed by Network Rail and he is on the board of ScotRail because Network Rail is the major infrastructure provider to ScotRail. He works for and is employed by Network Rail, not by ScotRail.

The Convener: Thank you. I will leave it there. As there are no other questions from members, I thank you all for taking part in today's session. That concludes the public part of our meeting.

11:23

Meeting continued in private until 11:51.

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