The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 23 February 2011

Session 3

Printed and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR Donnelley.

Wednesday 23 February 2011

CONTENTS

PUBLIC AUDIT COMMITTEE
5th Meeting 2011, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*George Foulkes (Lothians) (Lab)
*Jamie Hepburn (Central Scotland) (SNP)
*Mr Frank McAveety (Glasgow Shettleston) (Lab)
*Anne McLaughlin (Glasgow) (SNP)
*Nicol Stephen (Aberdeen South) (LD)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
Linda Fabiani (Central Scotland) (SNP)
James Kelly (Glasgow Rutherglen) (Lab)
John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Angela Cullen (Audit Scotland)
Graeme Greenhill (Audit Scotland)
John Lincoln (Audit Scotland)
Ronnie Nicol (Audit Scotland)
Shirley-Anne Somerville (Lothians) (SNP)

THE FOLLOWING GAVE EVIDENCE:

Dave Anderson (City of Edinburgh Council)
Sue Bruce (City of Edinburgh Council)
Richard Jeffrey (TIE)
Alastair Maclean (City of Edinburgh Council)
Donald McGougan (City of Edinburgh Council)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 6

Scottish Parliament

Public Audit Committee

Wednesday 23 February 2011

[The Convener *opened the meeting at 09:31*]

Decision on Taking Business in Private

The Convener (Hugh Henry): Good morning. I convene the fifth meeting in 2011 of the Public Audit Committee, and I welcome to the meeting staff from Audit Scotland and members of the public. I ask everyone to ensure that all electronic devices are switched off so that they do not interfere with the recording equipment.

The first item on the agenda is a decision on taking some business in private. Committee members will see a reference in their papers to items 5, 6, 7 and 8. I will start with items 6, 7 and 8, and I ask members whether they agree to take those three items in private.

Members *indicated agreement.*

The Convener: Members will also see that item 5 follows on from item 4 on the Edinburgh trams. Do members wish to split the business on the trams, taking part of the evidence in public and part of it in private?

Jamie Hepburn (Central Scotland) (SNP): I think that I am about to say the same thing that George Foulkes is about to say. I do not think that we should split the business; we should have the entire session on the public record.

George Foulkes (Lothians) (Lab): I second that—in an unusual alliance.

Jamie Hepburn: Absolutely. Not to be repeated.

The Convener: Do members agree that we should take the approach suggested?

Members *indicated agreement.*

The Convener: Okay, we will not take item 5 in private. In effect, item 5 drops from the agenda and the substance of that discussion will take place in item 4.

Section 23 Reports

"The cost of public sector pensions in Scotland"

09:33

The Convener: We move on to item 2 and a section 23 report entitled "The cost of public sector pensions in Scotland". I invite the Auditor General to brief the committee on the report.

Mr Robert Black (Auditor General for Scotland): Thank you, and good morning, convener. I would like to offer just a few words and then—with your agreement—I will ask Angela Cullen, who was responsible for overseeing the project, to summarise the key findings in the report.

This is a joint report by the Accounts Commission and me on the cost of public sector pensions, which reflects our complementary but different responsibilities for scrutiny in local government and the rest of the public sector. One of the key points in the report is that there are some really quite big differences between each of the six main schemes, particularly in relation to how much employers and employees pay to meet the costs of each scheme, and in the level of benefits that individual pensioners receive.

This is our second report looking at aspects of public sector pensions across Scotland. I made a report back in 2006, which members might recall. That report considered the financial pressures that were building up in the schemes then. We have prepared this latest report because those pressures remain significant—indeed, the level of interest surrounding public sector pensions has probably never been higher. As I am sure members are aware, and as we mention in the report, a former pensions minister, Lord Hutton, is currently reviewing public sector pensions across the whole of the United Kingdom on behalf of the UK Government. That review is due to publish options for major pensions reform next month.

Audit Scotland's report is intended to supplement Lord Hutton's review by providing much more detailed information to help with transparency and understanding of the costs and features of the main schemes that operate in Scotland. We hope that the report will provide elected representatives—in the Parliament and in the Government, and those who oversee the local government pension scheme—with essential information about the current state of the main schemes in Scotland. We hope that that will be helpful in the context of the wider debate on public sector pensions that we expect will follow once

Lord Hutton publishes his proposals for reform next month.

I ask Angela Cullen to take over and explain some of the main features and key findings of the report.

Angela Cullen (Audit Scotland): Our report looks at Scotland's six main public sector pension schemes, which are outlined in exhibit 1 on page 2. They cover most public sector staff in Scotland, including those who work in local government and the national health service, teachers, devolved civil servants, police and firefighters; in other words, they cover around 1 million people—or one in five of Scotland's population—and cost around £3 billion a year to provide.

In the report, we look at the costs of the six schemes, the benefits that pensioners receive, the operation of the schemes in Scotland and their governance arrangements. Pensions are incredibly complex and we have tried to structure our report to make things as transparent and accessible as possible.

Part 1 of the report provides an overview of the key features and benefits of the schemes including how they operate, how much members and employers pay into them, the level of benefits to which pensioners are entitled and what pensioners actually receive. Although entitlements are largely similar, the amount that each pensioner gets varies greatly depending on their pay and length of service.

Part 2 deals with recent reforms and Lord Hutton's current review, which the Auditor General mentioned. It also describes the role of the Scottish Government, the constraints within which it must work and its influence over pension scheme reform in Scotland.

The Auditor General also referred to differences among the schemes in the amount that employees and public bodies pay for pensions. Exhibit 2 on page 9 shows that public bodies contribute between 11.5 and 24.7 per cent of pay towards employees' pensions. On average, employees pay around a third of that, with their contribution rates varying from 1.5 to 11 per cent of pay. Although higher contributions tend to reflect higher benefits, particularly in the police and the fire service, the rationale behind the variation in contribution rates is not entirely clear.

As I mentioned earlier, we also looked at how much pensioners receive. Many pensions are low, reflecting relatively short service, low pay or a combination of both. Exhibit 3 on page 10 shows the average annual pension in each of the schemes and the difference in the average pension received by men and women. However, average pension is only part of the story; after all, some of the current pensioners retired many years ago. To provide a more accurate picture of the pensions that people are receiving now, we analysed information on annual pensions received by people who had retired within the past two years from the local government pension scheme—or LGPS—and the police and fire service pension schemes and by teachers who had retired within the past five years. That analysis, which is set out in exhibit 4 on page 12, confirms that differences in pension payments are largely related to length of service, and it is important that policy makers and others take that information into account when considering changes that might arise from Lord Hutton's review. It certainly reinforces Lord Hutton's point in his interim report that

> "It is mistaken to talk about 'gold-plated' pensions as being the norm across the public sector."

Parts 3 and 4 of the report deal separately with the costs and governance of the five main unfunded schemes and the LGPS respectively. The split reflects the significant difference between the LGPS and the other five schemes, both in their funding and in who is responsible and accountable for their governance.

As the largest scheme in Scotland, the LGPS has more than 450,000 members and is administered by 11 local authorities. It is also the only funded scheme, which means that any surplus contributions are invested for the future.

The Convention of Scottish Local Authorities is leading a pathfinder project, managed by the Improvement Service and funded by the Scottish Government, that is looking at options to rationalise the LGPS to reduce costs and improve risks and governance in future.

Because there are now more pensioners and people are living longer than previously expected, there are significant cost pressures in all the schemes, both in the pensions paid out and in the money paid in towards the costs of providing pensions. The annual amount paid to pensioners has increased by 30 per cent in real terms in the past five years. Over the same period, contributions by employers and employees have risen by 19 per cent in real terms.

In the LGPS, there is an additional cost pressure, because the return on investments in recent years has been lower than expected. The unfunded schemes do not have that cost pressure because they do not have any investments. However, contribution rates may rise in the unfunded schemes because of technical changes in how the rates are set. HM Treasury assumptions for calculating the rates are being reviewed, and that is expected to result in an increase in contribution rates.

Recent UK Government decisions, including the change from using the retail prices index to using the consumer prices index for uprating public sector pensions and increases in employee contributions that were announced in the spending review, are expected to ease the cost pressures on the public sector. The combined effect of all these changes will not become apparent until later in 2011 or in 2012, when actuarial valuations are completed. Those valuations will take into account any changes made by the UK Government, together with the latest demographic data.

Looking ahead to the position after Lord Hutton's review, our report recommends that the Government should consider the differences among the schemes when deciding how best to implement the changes that may arise from the review. Our specific recommendations are outlined on page 5 of the report. We suggest that there is scope for the Scottish Government to strengthen its scrutiny of this major area of public spending.

As ever, we are happy to answer any questions that members might have.

The Convener: Thank you very much. I have a couple of technical questions. Perhaps you can clarify the position. Exhibit 2 on page 9, to which you referred, shows that, for the new police pension fund, the employers contribute almost 25 per cent, which is the same as with the old scheme. However, the employee contribution has gone down from 11 per cent to 9.5 per cent. What is the reason for that?

John Lincoln (Audit Scotland): The main reason is that police officers will retire five years later and the benefits are slightly lower, so there is less need for employee contributions.

The Convener: Okay. You indicate that in the LGPS some employees on higher rates can make additional contributions. What is the maximum percentage of their final salary that a senior member of staff can receive when they retire, if they had the maximum length of service?

John Lincoln: If they have the maximum 40 years in the scheme, it depends on when they started. The accrual rate up to when the most recent reforms took place was forty eightieths, so people who were in the scheme until then would get half their salary, which includes the lump sum of three eightieths. Since the reforms, there is no lump sum. However, the accrual rate has gone up from eightieths to sixtieths, so the maximum that they can get is two thirds of their final salary. That will happen only for people who retire in about 35 years' time, because it takes a while for the changes to feed through.

The Convener: So at the moment anyone who retires could potentially retire on half their final salary, but some chief executives in the future may be able to retire on two thirds of their final salary.

John Lincoln: Yes, that is correct. That would be in about 38 years.

The Convener: Given the furore over chief officers' pay in the public sector, is allowing them to retire on two thirds of their salary rather than on half meant to be a cost saving?

John Lincoln: During the reforms, there were a lot of other changes in the local government scheme. One of those changes was to the rule of 85, which allowed people to retire before the age of 65 on a protected salary. That rule has now gone. There has also been a change in the employee contribution so that people on high salaries—chief executives, for example—pay a much higher employee contribution.

Overall, the changes in the local government scheme that happened during the previous reforms getting rid of the rule of 85, the increase in contributions from employees, and the withdrawal of the lump sum—marginally reduced the cost of the scheme for employers.

09:45

The Convener: Under the present scheme, if someone has 35 or 36 years of service—thirty-six eightieths, as you described it—and if for the exigency of the service the council decides to allow that person to go early and to draw their pension early, and decides to give them added years, can you confirm that it is the council that will pay the additional contributions for those extra years for as long as the person lives and draws their pension? For example, if a chief officer goes early—as has been happening over the past 10 or 15 years—is it the council tax payers who will pay for the additional boost to an already generous pension?

John Lincoln: When someone retires early in those circumstances, the council will ask the pension fund for a valuation of how much it will cost. An actuarial evaluation will be carried out by the pension funders to ascertain what is termed the strain on the fund. The council will then have to pay the additional cost of that person's pension to the pension fund. It will have five years in which to do that.

Jamie Hepburn: I thank the Auditor General for his report. Exhibit 3 on page 10 certainly gives the lie, for a significant part of the public sector and for women in particular, to an issue that we hear about often—gold-plated public sector pensions.

Can you give us further details? The exhibit gives a useful breakdown of average annual pensions for men and women, but I notice that figures are not available for the civil service. Why is that?

John Lincoln: We asked the National Audit Office to ask the Cabinet Office on our behalf for that breakdown, but it was not able to provide it within the timescale that we gave.

Jamie Hepburn: So it could provide the breakdown but it might take a bit longer.

John Lincoln: I think that it may have been able to provide it, but was not able—

Jamie Hepburn: Okay.

The Convener: Before you move on, Jamie, I ask John Lincoln whether, if the Cabinet Office was not able to provide the breakdown within the timescale required for this report, it has provided the breakdown since.

John Lincoln: It has not since provided us with the breakdown, no.

The Convener: Is that something that you are pursuing?

John Lincoln: It is not something that we are actively pursuing at the moment, no.

The Convener: Okay.

Jamie Hepburn: I presume that that information is available and that someone could ask for it.

What definition of civil service is used in the exhibit? I am a little surprised that the civil service is at the bottom of the league table, as it were. That can only indicate wild variations in civil service pensions, because I cannot imagine that the top mandarins receive an average pension of £4,222.

John Lincoln: The civil service pension scheme covers a wide variety of staff—including, for example, fairly junior staff in the Scottish Government, clerks, people in jobcentres and so on. The scheme covers a huge variety of staff, so there will be an averaging effect.

Jamie Hepburn: Have you been able to break down the figures further, or are the figures shown in the exhibit as broken down as they can be?

John Lincoln: We have not broken them down further.

Willie Coffey (Kilmarnock and Loudoun) (SNP): Future pension liabilities are covered on page 24 of the report. I have never fully understood why we talk about a pensions black hole facing society. We know that the population is ageing, and we know that salary levels are generally on the up, so I would have imagined that Governments, financial planners and so on would be able to forecast changes in society in order to make provision for future pension liabilities.

It seems clear from the Auditor General's report that some variations are attributable to continued low interest rates; they appear to be one of the bigger factors in determining future pension liabilities.

Exhibit 9 shows the extent of the problem that we potentially face. Over four years, the set-aside goes from £47 billion to £69 billion, which is an increase of nearly 50 per cent. How much of that change in liability is attributable to changes in society, and how much is attributable to interest rates, which have been steady over the past few years?

Angela Cullen: It is a mixed picture: we now have more pensioners than ever before because of an historical increase in the public sector workforce; public sector pay has increased over time; and people are living longer. There are demographic factors that influence the number of pensioners, how long they live and the pay that they retire on. However, interest rates are a major factor for the reported liabilities and for their valuation. Interest rates in 2007 were around 5 per cent, but they are now historically low, at 0.5 per cent. That has a major effect on the valuation of the pension liabilities, which now have a much higher valuation than they would have had if the interest rate had been 5 per cent.

Willie Coffey: I understand that. It is probably impossible to get an answer, but this is what I am trying to get at. If and when interest rates normalise, recover, change or increase—or whatever the term is—the pension liability will come down significantly, I think. For me, it is about how much of the liability is attributable to interest rates and how much is attributable to societal changes, which we well know about and presumably have been planning for over a number of years. It is hard to see what the breakdown is. Major changes in pension policy could come about because of flat interest rates over a number of years rather than because of changes in society at large.

Angela Cullen: Yes—there is a combination of factors.

John Lincoln: There is a small section on the issue in Hutton's interim report, which states:

> "The changes in the discount rate assumptions ... did not result from adjustments to the assumed security or generosity of public service pensions. Instead ... they were linked to"

interest rates and corporate bonds, and reflect

> "the change in assumed risk of corporate defaults during ... the credit crunch."

So, that is what is driving things. The report continues:

"A change of this kind in bond yields has no implications for the actual cost of providing public sector pensions, so such estimates of accrued liabilities need to be used with caution."

I think that that sums it up.

Willie Coffey: The conclusion that I draw from that technical information is that quite a lot of the pensions black hole is attributable to interest rates rather than to the societal changes that we have been told all along are the principal reason for the liability increasing.

The Convener: Just before I bring in George Foulkes, I want to follow up Willie Coffey's point. Do the figures that you have shown also reflect the changes that the present UK Government has introduced, which will steadily erode the value of pensions?

John Lincoln: No. Those figures were from March 2010.

The Convener: So will the changes that have now been introduced have the effect of reducing the pensions liability?

John Lincoln: Yes. The assumption in the Hutton review was that the change from using the RPI to using the CPI would reduce overall payments by about 15 per cent.

Mr Black: Can I perhaps supplement John Lincoln's very full answer to Mr Coffey's question? I refer members to page 41 of our report. As Mr Coffey indicated, it is important to be aware of the overall liabilities in the longer term, which could stretch out for around 70 years. It is also important to be aware that the major factors involved are the interest rates and the actuarial revaluations that are based on those. In the extreme right-hand column of the diagram on page 41, we can see the cost of the scheme in-year. For example, we can see that the local government pension scheme has a positive net cash flow of £266 million. The national health service scheme is similarly positive. However, there are negative figures for the schemes for teachers and the civil service, and the schemes for the police and firefighters break even.

That tells us—perhaps this reinforces the point implied in Mr Coffey's question—that there is not an immediate crisis, as all the funds are being managed appropriately, but we need to ensure that we have a searchlight that looks to the future to see how liabilities are building up in the light of the performance of capital markets and the growth in the number of pensioners and what they are entitled to.

George Foulkes: Can we put matters into a bit of perspective? We are talking about 172,300 pensioners. That is the figure given in the key messages in the report. The cost of those pensions is coming up to £2 billion, which is a little less than the Royal Bank of Scotland pays in bonuses, on top of huge salaries, not to mention pension contributions—paid for out of taxes from the public, including from public service pensioners. Is that correct?

Mr Black: We have not audited those numbers, but I acknowledge the point that you are making, Lord Foulkes.

George Foulkes: It is about time that we put matters into perspective. Public sector pensions are not generous in the context of some payments that are being made to people in the private sector, particularly in the banks, which provide services that bear no comparison with the services that are provided by the doctors, teachers and nurses whom we are talking about. It is about time that people realised that.

Murdo Fraser (Mid Scotland and Fife) (Con): I will ask about the comments on aspects of final salary schemes on page 13 of the report. How many of the six schemes that we are talking about are final salary schemes?

John Lincoln: It depends on when the person joined the scheme, to a certain extent. Apart from the new civil service scheme, all the schemes are final salary schemes. People who have joined the civil service in the past three or four years are in the nuvos scheme, which is an average salary scheme. All the rest are final salary schemes.

Murdo Fraser: So they are all final salary schemes apart from the most recent civil service scheme. Have you done any comparison with the private sector and considered the percentage of people who are employed in it who are in final salary schemes?

John Lincoln: We did not directly compare the numbers.

Angela Cullen: We have not made a comparison against final salary schemes, but paragraph 12 on pages 6 and 7 of the report states:

"Around 500,000 current employees are active members of one of the six main schemes in Scotland, which is around 85 per cent of the public sector workforce."

That compares with only 35 per cent of the private sector workforce who are currently in pension schemes. The paragraph says:

"The Pension Act 2008 due to come into effect in 2012 will require"

all private sector

"employers to automatically enrol most employees into a qualifying pension scheme."

Therefore, steps are already in place to try to redress the imbalance, but there is quite a stark difference between the number of public sector employees who are currently in pension schemes versus the number of private sector employees who are in them.

Murdo Fraser: Most private sector employees do not work for banks and are not on very substantial salaries, of course. Thank you.

Anne McLaughlin (Glasgow) (SNP): I want to raise an issue to do with final salary pension schemes that is not in the report. I wonder whether Audit Scotland has come across it.

I have not worked for a local authority and am not entirely sure how things happen in them, but I have worked with a vital community project in the voluntary sector. It was a small project that dealt with a number of clients in a mental health setting, and it inherited the pension agreements of staff who had transferred to it. Because of the cuts, which will get worse in the coming years, some money was lost and redundancies had to be offered. When they were offered, there was a wait to find out whether certain people who were in one of the pension schemes and had paid into it for a long time would accept those offers. Obviously, it was hoped that they would not, but they did. The project, which was vital, had to close because it was told that it faced a massive bill—I think that it was liable for more than £1 million, which was impossible for it to pay. How often is that going to happen? How commonplace is it going to be? Projects will have to offer redundancy. Is there going to be a problem in the voluntary sector because of small organisations that simply cannot meet their liabilities?

10:00

Angela Cullen: We have not considered that issue specifically in this report. There are quite a few voluntary organisations whose employees are members of the LGPS—there are around 600 admitted bodies in the LGPS, in addition to the 32 councils.

Mr Black: It is worth making the rather obvious point that this is not simply a problem for bodies that are admitted to the local government pension scheme. It is an issue to do with the employment rights in law of employees who have been with an organisation longer than two years and are entitled to a statutory redundancy payment. I acknowledge absolutely the point that this situation could tip small organisations without a strong cash flow over the edge. However, we have not considered that in any way.

Anne McLaughlin: Is there any scope for you to consider it? Who else would consider it? One of the Governments needs to consider the issue in case it causes a big problem. The project that I mentioned cannot be the only one that is affected. It never expected to be in this position. It accepted that it had responsibilities, as an employer. However, because the project is small and is dependent on public funding, which is reducing, those responsibilities resulted in closure.

Mr Black: My immediate thought is that the Scottish Council for Voluntary Organisations would be the first port of call for information about what is happening to the viability of some of those organisations and the extent to which the issue is a problem.

The Convener: Over the past 15 or 16 years, early retirement has become a feature for senior and middle management, as a means by which local government, the health service and the civil service can reorganise. The argument is that downsizing in such a manner enables those public sector bodies to reduce their costs. However, as I have said before, there is an underlying cost to allowing those early retirements, as has become obvious over the past 15 or 16 years. Have you done a calculation of the additional cost to the pension schemes of allowing those earning more than, for example, £50,000 a year to take early retirement? What is the additional cost to the body that allows them to go, in terms of the additional contributions?

Angela Cullen: We have not considered that issue specifically. In part 3 of the report, we comment on lump sums being offered. The take-up of those has been relatively high and increased to around 25 per cent of total pension payments in 2009-10. In the report, we say that the costs of any decisions that are made on early retirement are borne by the employer, which must assess the business case for that, as John Lincoln said earlier.

Mr Black: In general terms, if a public body is minded to offer someone voluntary early retirement, we would expect it to present a business case that shows a financial benefit to the public purse, over an appropriate period of time. A few years ago—before devolution—in a report that I did for the Accounts Commission on the costs of local government reorganisation, I highlighted the issue of the number of staff leaving during that period and the question whether the substantial cost of that was offset by a financial benefit. It is fair to say that, in the years since devolution, greater discipline has been applied to require people to be able to demonstrate the business case for early retirement packages.

The Convener: If a senior director decides to go a bit early and leave with 38 or 39 years' service—let us use the example of eightieths—normally the only justification for giving added years is that there is a saving to the council. However, if the council replaces the director with another director, there is no obvious saving. What penalties or implications are there for a council that gives added years to someone who is already entitled to a generous pension?

Mr Black: It is for the individual local authority, non-departmental public body or other public body to make the business case. It is not impossible that a post at any level would be replaced broadly on a like-for-like basis but consequential vacancies down the scale would not be filled, which might generate the saving. That is not an unknown set of circumstances.

The Convener: No, but if that does not happen, the council should not make additional payments to a director who is going in such circumstances.

Mr Black: It is difficult for me to comment in the abstract on that, but I acknowledge the point that you make.

The Convener: Would the Accounts Commission consider the matter in such a situation?

Mr Black: The auditors of local authorities would be vigilant over what was happening with regard to early release of staff.

The Convener: Not just chief executives but many heads of service and directors are earning more than £100,000, and many of them have been at that level for only a few years of their working lives. That brings me back to the issue about final and average salary. I do not have a problem with the final salary approach for people who earn modest sums for most of their lives, but I have a problem with people who earn modest sums contributing to generous pensions for a small number of people who have not been at a very high level for long.

If someone is on £100,000, the forty eightieths rule gives them a pension of £50,000 per year in the local government scheme. Is the lump sum calculated on the basis of three times the pension? Does the person get a tax-free lump sum of £150,000?

John Lincoln: Until the most recent round of reforms the lump sum was thirty eightieths. There are no lump sums in the new local government scheme, so a person who wants a lump sum must give up a proportion of their pension to get one. If they give up £1 in pension, they get £12 in lump sum—that is the ratio.

The Convener: Do the new arrangements apply only to new entrants or do they apply to everyone?

John Lincoln: I think that everyone still retains the right to the lump sum of thirty eightieths of salary up to 2009. After 2009 they do not get the lump sum.

The Convener: What point in 2009 are we talking about?

John Lincoln: I do not recall the operational date. It is probably 1 April.

The Convener: Okay. If there are no more questions, I thank the witnesses for their evidence. I am sure that public sector pensions will continue to be a significant issue in the years to come.

"Maintaining Scotland's Roads: a follow-up report"

10:09

The Convener: Item 2 is consideration of "Maintaining Scotland's Roads: a follow-up report", which is a topical issue. I invite the Auditor General to comment.

Mr Black: Thank you, convener. The only interest that I have to declare is that I own a car. [*Laughter.*]

Mr Frank McAveety (Glasgow Shettleston) (Lab): And it is off the road.

Mr Black: It was off the road for 48 hours because of an unforeseen pothole.

Mr McAveety: Why is that not in the report?

Mr Black: I sometimes think that, if we want media headlines, all we have to do is publish a report on potholes. However, to be serious—and we always report on serious matters—this is again a joint report with the Accounts Commission because of its responsibility for the oversight of local government expenditure. As before, I will offer a few brief comments and then hand over to Ronnie Nicol, who was in charge of this project and who will take you briefly through the main findings and recommendations.

As the convener has just acknowledged, this is a matter of great public interest. There has been almost unprecedented media coverage of this particular report. We previously looked at road maintenance in 2004, and this report examines the progress that has been made by both Transport Scotland and local councils on implementing the recommendations that we made then. This report is therefore a follow-up to a previous report in which we made a set of clear recommendations. It reviews changes in the condition of the road network since 2004, how much is currently being spent on road maintenance, and how road maintenance is being managed.

I would like to emphasise that the report is based on information that was collected between March and October 2010, so it does not consider the impact of this winter. In particular, it does not consider the severe weather that we all experienced round about Christmas. Even so, I have to say that what we found is rather disappointing. The condition of Scotland's roads has worsened since our previous report. More significantly, the expenditure trends and the scale of the backlog in maintenance mean that the asset value of the network is not being sustained. As I have said on other occasions, deferring essential expenditure is a serious issue. In the first place, we are simply storing up problems for the future if we do not maintain the infrastructure. Secondly, we are simply passing on to our children and to future generations the burden that arises from our consumption of the assets that we inherited from the previous generation. There is a significant issue relating to fairness between our generation and the generations to come.

The Government, local authorities and all public bodies are having to make extremely difficult spending decisions on their competing priorities. However, in view of the fact that our overall performance is slipping back, we suggest in the report that we need to think more radically about how Scotland's road network is managed and maintained. We have suggested that there might be some kind of national review on behalf of the Government that allows all the parties to come together and seek the solutions that are urgently needed.

At this point I will hand over to Ronnie Nicol, who will say a little bit more about some of the key findings.

Ronnie Nicol (Audit Scotland): Scotland's road network consists of almost 56,000km of road. Transport Scotland is responsible for 3,400km of motorways and trunk roads, and councils are responsible for 26,000km of classified roads and 26,400km of unclassified roads. The road network is valued at £38 billion in its present condition.

Despite public spending in Scotland rising by around 25 per cent since our previous report, the condition of Scotland's roads has worsened. Only 63 per cent are now in acceptable condition.

Trunk roads tend to carry higher volumes of traffic at greater speeds, so they need to be maintained to higher standards for safety reasons. Although trunk roads are in better condition than council-maintained roads, the percentage of trunk roads in acceptable condition has declined—from 84 per cent in 2006 to 78 per cent in 2010.

The condition of council-maintained roads has also declined. For classified roads, 70 per cent were in acceptable condition in 2005, but that figure fell to 66 per cent by 2010. Unclassified roads, typically those in built-up areas, are in the poorest condition, with only 58 per cent in acceptable condition.

As the condition of our roads declines, it is no great surprise that the cost of repairing the road maintenance backlog is increasing. The estimated cost of removing all network defects in Scotland, no matter how slight, is more than £2.25 billion, which is £1 billion more than in 2004. The road maintenance backlog for trunk roads is now £713 million. For council-maintained roads, it is £1.54 billion—although we know that that is an underestimate, as it does not include the cost of removing all the defects of councils' bridges, lighting and footways.

10:15

Various surveys by organisations such as the Automobile Association, the Royal Automobile Club Foundation and Transport Scotland have shown that users' satisfaction with road conditions has decreased over time.

It is perhaps surprising that we have reported a seemingly limited impact from the severe winter of 2009-10 on the latest road condition results. Although that winter caused significant damage to the road network compared with a normal winter, it tended to affect those roads that were already categorised as being in the worst condition, so their deterioration did not register in the road condition data.

During 2009-10, a total of £654 million was spent on road maintenance in Scotland, of which £162 million was spent on trunk road maintenance and £492 million was spent on council-maintained roads. Although that represents an increase in expenditure of 5 per cent compared with 2004-05 after taking account of general inflation, road construction inflation was considerably higher than general inflation over that period. The effect is that, in purchasing terms, councils spent 13 per cent less, and Transport Scotland spent 32 per cent less, on road maintenance in 2009-10 than they did in 2004-05.

Transport Scotland estimates that it would need to spend £275 million to get trunk roads into a steady state, whereby a fixed amount of roads need structural maintenance each year. Councils estimate that, to maintain roads in their current condition, they would need to spend £45 million more each year for the next 10 years on long-term structural maintenance. The consequences of not spending at that level are forecast to result in a £1 billion decline in the value of the local road network and a 10 per cent reduction in its condition.

Despite the challenging financial outlook, it is still somewhat disappointing to note the limited progress that has been made on implementing the recommendations that were made in 2004 on the management of road maintenance. I will give you some examples to illustrate that. Asset management plans for roads, supported by appropriate inventory and information systems, are a fundamental requirement of good management. Although the Society of Chief Officers of Transportation in Scotland—SCOTS—provides support to councils in developing them, only a third of councils have complete road asset management plans in place, and several councils do not have sufficient data on the condition of items such as bridges, footways and non-illuminated signs.

Furthermore, councils could do more to benchmark their road maintenance costs and their performance against other councils and the private sector as a way of identifying potential improvements. The 32 councils use a variety of different performance indicators, and that lack of consistency in the measures that are used makes it difficult to compare performance.

There is also scope for more partnership working on road maintenance issues. There is some joint working or collaborative activity between councils—much of it at an early stage—but Tayside Contracts remains the only example of a multi-council consortium being established to undertake road maintenance, and it dates from before the reorganisation of local government in 1996. As we have said in our report, there is scope to develop a costed model that would help councils to assess and understand the benefits of sharing services.

In his earlier comments, the Auditor General referred to the difficult decisions that the Government and councils face about spending on road maintenance and other services. There is an urgent need to explore new ways of working, and the national review that we propose represents an opportunity to stimulate service redesign and increase the pace at which the potential for shared services, partnership working and a more flexible use of resources is examined.

I hope that these remarks have been helpful to the committee. My audit team colleagues and I will be happy to respond to any questions.

The Convener: I thank the Auditor General and Ronnie Nicol for a comprehensive introduction to a significant issue for us all. You have posed a challenge to politicians of all parties on how they address it. It is quite sobering and worrying to hear what you have had to say.

The Auditor General's point about the responsibility of the current generation of decision makers not to pass on a burden to future generations is well made. We have been the beneficiaries of good long-term planning and better times. There is some evidence that we are spending for the short term but not thinking in the long term.

Audit Scotland might not have looked at this, but I understand the difficulties that councils have had in responding to two pretty severe winters that have had a huge impact on our local and national road network. The Auditor General gave us an amusing anecdote about his car being off the road because it hit a pothole, which is an experience that will have been shared with anguish, not amusement, by thousands of people across Scotland. Those who have their cars damaged by potholes are frustrated when they attempt to make a claim and the council's insurers fall back on a tried and tested routine of asking whether the pothole has been reported. If it has not, the council accepts no liability or responsibility. Therefore, when people see a pothole, it is important that they do not just moan about it but report it, to protect the interests of other motorists.

I understand that part of the problem is the budgetary situation, but it is increasingly evident that, when there is a local response to reports of potholes, the councils in general do not fix the problem for the long term. They merely respond to the problem to avoid an insurance liability. I can comment only on the area that I live in and represent in Renfrewshire, which Ronnie Nicol will be familiar with. Some roads virtually have ditches running down the middle of them and you cannot go near the side of the road on others unless you want to inflict significant damage on your car. What has happened is worrying, to say the least. In fact, it is appalling.

There used to be a phrase about not throwing money down the drain. Now we see councils wasting money by throwing it down potholes. They are putting on temporary patches, which are only there for days before they start to unravel, but the councils can say that they have responded to the report about the pothole. There is no way on God's earth that those repairs are going to last.

However, I know companies across Scotland that are saying that they can do a job that, although it might initially be more expensive, will solve the problem with a solution that will last and save the councils money in the long run. What do we need to do, first, to get some common sense applied to the problem and, secondly, to address the immediate financial burden of a repair that might be more expensive but which—to come back to the Auditor General's exhortation—will better serve us and future generations? What needs to be done to bring that common sense to the approach?

Mr Black: We have no easy answer to that. If we had, we would share it with you. It is one of those occasions on which the analysis asks more questions than it answers. As we say in the report, the Government, along with partners in local government, including Transport Scotland, needs to think seriously about a long-term solution. It is disappointing to find after five years that the picture is still pretty mixed as to whether local authorities have asset management plans that make sense, that comparative performance information systems are not there and so on. We need to move beyond all that pretty quickly.

Murdo Fraser: I endorse the convener's remarks. The problem, though, is not just with local roads; driving on the M90, as I do several times a week, I find myself weaving from one side of the road to the other to avoid all the cracks and potholes. Many other drivers do the same and one has to wonder how long it will be before there is a serious accident—or, indeed, more than one—as a result.

It is made clear on page 3 that the report is based on evidence that was collected up until last October. We will all be familiar with the impact of the severe weather over the past three months on the roads, but the report predates that and does not take it into account. Would it therefore be correct to suggest that the current situation is much worse than that revealed in your report?

Ronnie Nicol: Yes. We carried out the audit work for this report last summer and autumn, and the statistics from SCOTS that we have used are for a similar period.

I should point out, though, that our report notes the bad winter of 2009-10, which resulted in a significant deterioration in the roads. However, as I said in my introduction, that deterioration did not really register because the worst roads were already in the worst category. The correlation between very bad weather and the bad condition of roads is certainly very evident.

Murdo Fraser: Perhaps we need another category—"extra worse", perhaps—for future reports.

I was interested to read in the second key message that public spending in Scotland increased by 25 per cent in the six years since your last report. When funding was increasing, money was still not being spent on repairing the roads—you might say that we did not fix them when the sun was shining—and, now that we are in a period of austerity, one has to wonder where that money will be found. What response did you get from councils when you asked them why, when their budgets were increasing, they did not invest properly in road maintenance?

Ronnie Nicol: As this was a follow-up audit, we were essentially looking at the data that we had received in the previous audit. On this occasion, we focused on levels of spending, backlog estimates and the condition of roads; we did not audit councils individually and did not ask them specifically why they had made certain spending decisions.

Murdo Fraser: Exhibit 6 on page 11 compares the situation in Scotland with that in England and Wales. It is clear that we are in a much worse position than they are; for example, the backlog cost per kilometre in Scotland is almost 50 per cent higher than it is south of the border. Why is the situation in Scotland so much worse?

Ronnie Nicol: I am afraid that we did not drill into those differences to find out the reasons for them, but we thought that it might at least be of interest to present the picture.

Mr Black: That is another issue that has emerged from the report to which others will have to provide answers.

Murdo Fraser: I do not know how we are fixed with regard to following up this report, but it is an issue that we could consider.

Mr McAveety: In much of this discussion it seems that personal testimonies are required. It would be helpful if committee members helped each other in their appeals to local authorities.

This is an emerging major issue, and the recent weather has certainly made the situation much worse. I thank Ronnie Nicol for his very helpful introduction, but I have a few issues that you might wish to comment on further.

10:30

If there is any issue that has no big problem of tension between national direction and local autonomy, it strikes me that it is road maintenance, because although it affects people it does not raise the kind of accountability issues that arise in relation to care services, health services, police services and fire services.

The first issue is that the initial report came out in 2004, but a number of years later fundamental matters have not been addressed. One of those is asset management, as Ronnie Nicol said. We need national and local direction on that. Perhaps we can consider that issue.

The second issue, which is raised in paragraphs 15 to 17 of the follow-up report, is the marked contrast between council-maintained unclassified roads and trunk roads. There is a massive disparity in that regard, and it would be helpful to consider how we narrow the gap with the resources that we have.

Thirdly, we must ask how come there has been no radical shift in consortia arrangements, after all the exhortations at national and local level about partnership working and collaboration. I would have thought that we could have made substantial inroads in that regard.

Finally, when we talk about £2.25 billion, everyone is terrified, and rightly so, because it is a massive amount of money. How do we bridge the gap? I presume that spending £2.25 billion would give us a Rolls-Royce, de luxe service. Are we just looking for a Lada service?

Ronnie Nicol: The figure was provided by professional transport managers, so it reflects their judgment on keeping the roads in an acceptable, usable condition.

Mr McAveety: What role is there for national direction in the debate, given that despite the publication of a major report little has changed dramatically?

The differences between Scotland and England were mentioned. Is remoteness an issue? We had particularly bad winters last year and this year, which might be an issue. It is a wee bit colder up here than it is in other parts of the United Kingdom—or so I seem to have noticed over the years.

Ronnie Nicol: I think that such factors are part of what has driven us to recommend that everyone comes together to have a new look at things at a national level. There has been a division of labour on who does what. Attention has been given to prioritising the most important routes—that is why we have trunk roads, classified roads and unclassified roads. A significant amount of money has been available, but it has not cracked the problem. Now is the time to have a more fundamental look at what happens and how it happens.

The shared services issue is interesting, because there has been much activity. What is the missing ingredient that makes service sharing happen? That is the puzzle. The review and the coming together of people to talk about making fundamental changes might be a catalyst that offers a way in.

George Foulkes: Please excuse the pun when I say that we seem to keep trying to reinvent the wheel. Lord Wheatley had it right in the early 1970s—

Jamie Hepburn: Is he still in the Lords with you, George?

George Foulkes: No. I am talking about the late Lord Wheatley. He is no longer there—at least, I did not notice him, anyway.

As I recall, the best time for road maintenance was when we had regional councils in Strathclyde, Lothian and Tayside. The fact that the Tayside procurement consortium still exists testifies to that; people in Tayside are still working together. That was a much better time. Now we have tiny local authorities, which do not have the resources for road maintenance unless they work together. As Lord Wheatley said, the large estuarial authorities had many more resources and were able to do the work.

That was not a question. My question is this: am I right in saying that the money for road maintenance comes out of the block grant, so it comes out of the same budget that covers other transport projects?

Mr Black: Yes.

George Foulkes: I get the impression—this is not a party-political point in any way—that officials in the Scottish Executive or Government transport department are preoccupied with prestige projects, such as the Forth replacement crossing, which is a total waste of money, and that there is no glamour or excitement in keeping the roads properly maintained. Is that an unfair analysis?

Anne McLaughlin: Would trams fall into that category?

Mr Black: If I may, I would prefer not to respond to the latter part of Mr Foulkes's comment. On the former part, as some committee members might be aware, I have had a long career, which has included many years in local government. I can recall as far back as the time of Strathclyde Regional Council and the cuts that were required as a result of International Monetary Fund intervention. Some really quite difficult decisions had to be made in relation to what we used to call the structural maintenance programme and on-going pothole filling, gully emptying and so on. Going right back to those days, for understandable reasons, members of local authorities said, "We must preserve the care services. We can postpone the structural maintenance." That was a feature of the 1970s through to the 1980s, and we have now seen it in the new millennium. One of the really difficult issues for any policy maker, whether a politician or an official, is to balance the long-term benefits and costs and the immediate pressures on budgets.

On Tayside Contracts, I was very much involved at the time of the last reorganisation in persuading Dundee, Perth and Angus to retain that organisation. Again, however, there was an understandable pressure for people to control their own destiny, and that was not an easy set of conversations. However, Tayside Contracts did survive and, as far as we know, it is doing quite well.

The point that Ronnie Nicol made a moment ago is central. Somehow we need to unlock this debate and get everybody around the table to think seriously about how we tackle the issue in the future.

George Foulkes: Of course the one good thing about trams is that they do not create potholes, do they?

The Convener: We will leave that one for the moment.

Mr Black: We will revisit a response to that.

The Convener: George Foulkes makes a significant point: leaving aside whether you are in favour of a replacement Forth crossing or any of the other big infrastructure projects, politicians will have to make decisions over the next few years about whether to invest in very expensive and open-ended projects or whether to address the basic infrastructure. It is quite clear that we might not be able to afford both. Politicians locally and nationally will face huge challenges.

Jamie Hepburn: I want to follow on from what Frank McAveety and George Foulkes talked about. I refer specifically to part 3 of the report, on improving the management of road maintenance. I note that exhibit 11 on page 23 sets out the benefits of a shared local road maintenance service, drawing on John Arbuthnott's review on behalf of the Clyde valley community planning partnership. How widespread is that approach? I note that paragraph 80 suggests that that type of approach is being taken forward by some of the local authorities in the south-east of the country. Is that happening anywhere else?

Ronnie Nicol: I am not sure that we have a lot of information on that.

Graeme Greenhill (Audit Scotland): I do not think that we could come up with any examples, other than what is included in paragraph 80. As you say, action has begun in the south-east, but it is very much at an early stage.

Jamie Hepburn: So even the local authorities that make up the Clyde valley community planning partnership, where the review was done, have not particularly taken forward the approach, as far as you are aware.

Ronnie Nicol: Obviously, the Arbuthnott report covered quite a large range of services. As I understand it, other services have been looked at before this particular area.

Jamie Hepburn: Okay. In paragraph 84 you refer to the importance of Transport Scotland and local authorities working with utility companies to try to minimise the impact of road works on those who use the roads. I presume that you are talking about times when it is known that utilities are going into a new development or that there will be road works anyway—so that the road is not dug up for gas works to be put in, only for it to be dug up two months later for electricity cables and so on to be put in. Is that what you mean?

Ronnie Nicol: Yes. Potholes often occur where a road has been dug into for some reason and has been patched up. There are also issues with the same bit of road being dug up on more than one occasion because of a lack of co-ordination between the different utility companies. A lot is being done within the industry to improve the situation.

Jamie Hepburn: Case study 3 is West Lothian Council's considerate contractor scheme. Does the scheme try to co-ordinate the activities of the various utility companies?

Ronnie Nicol: Yes. That is included as an illustration of what we are talking about.

Jamie Hepburn: You refer to it as a positive example. Is the scheme being run anywhere else, as far as you are aware?

Graeme Greenhill: Not as far as we are aware from the survey responses that we received from councils.

Anne McLaughlin: I thank the convener for enlightening me about the practice of the insurance companies and why you have to report every pothole. I was at a residents meeting in the east end of Glasgow last week at which one of our councillors read out a list of about 25 streets in which he had reported potholes. I could not work out why on earth he was doing that, but that is obviously why. I remember when Councillor Alf Roberts was on "Coronation Street"—

George Foulkes: Goodness me!

Anne McLaughlin: I do not remember it, actually—I remember the repeats, George.

People were always asking, "How are the potholes in Rosamund Street?" It was a dull issue, but it is now the hot topic of the day, for obvious reasons. It is about more than car damage; I wonder whether there has been an increase in the number of accidents. I would be utterly astonished if there had not been, as I am constantly seeing cars that are being driven in front of me suddenly shoot off to the right. The drivers cannot possibly have time to check whether there is somebody behind them. When a driver sees that their vehicle is about to go into a big crater, it is their instinctive reaction to move around it. I would be interested to know whether any work is being done on that.

Ronnie Nicol has talked about a national coming together, and the convener and Robert Black have talked about how we all must work on the issue together. It is probably our—the politicians'—fault that such a short-termist approach is being taken to it. Whenever a Government or a local authority wants to invest in taking a long-term approach to any problem at all, politicians from all political parties jump up outraged because such-and-such a service will not get the funding that it used to get. The money must come from somewhere and, as the convener said, decisions will have to be made. We, the politicians, must make decisions on the basis that there are some things on which we really have to work together. We should not be afraid to consider long-term solutions for fear of Opposition politicians jumping up and down saying, "That's an outrage," and telling us that we should be doing this or that with the money. A lot of the fault lies with us. I am not convinced that all of us sitting around the table agreeing that will effect any change, but I live in hope.

Willie Coffey: Members have already touched on some of the more obvious problems connected with the issue, but I have a question for Ronnie Nicol. Do you know what we are paying for the materials that we use to fix the roads? You are giving us a clear message that the costs and spend are going up and up. My attention was drawn to the case study on page 23, which refers to a new technique called crack and seat that seems to be bearing fruit in saving considerable amounts of money. Are we paying an awful lot more for the materials that we use to fix the roads than we might be paying? Your recommendations for the future would clearly be to review what materials we use, what is appropriate and how works can be co-ordinated better among local authorities—an issue that one committee member has already mentioned. What information can you offer in that area?

Ronnie Nicol: I remind you that this was a follow-up audit and that the amount of audit work that was carried out was relatively limited. We tried to illustrate for the reader some of the interesting things that are happening as local authorities try to do things differently, but we do not have a breakdown of the spend. As we mention in the report, we know that the inflation factors for the things that contribute to what is spent on roads maintenance have been much higher, but we do not have any details on the split between how much is spent on labour and how much is spent on materials. We did not go into detail on the techniques that any maintenance operations use, either.

10:45

Willie Coffey: The picture presented by the Auditor General's report is certainly mixed—and that is an understatement. Local authorities and other elected members will certainly have to bite the bullet soon and try to adopt a more co-ordinated and integrated approach. Ronnie Nicol mentioned a case study; I do not know where it was carried out but, if it is anything to go by, there is some hope. The use of better materials will bring benefits in the future, and we could also recycle road materials to repair the roads.

You may not be able to answer this question. The number of vehicle movements on the roads must have increased considerably since the publication of the previous report—I am thinking not only of cars but of heavy goods vehicles—and the number of vehicles on the roads must be a contributory factor in the condition of the roads. Furthermore, we have recently had severe winters. Is the salt that we have used another contributory factor in the decomposition of road surfaces?

Ronnie Nicol: Priority is given to roads with the highest levels of traffic, in acknowledgement of the fact that greater use leads to greater wear.

Graeme Greenhill: Paragraph 10 on page 7 of the report says:

> "The volume of traffic on Scotland's roads has increased by 27 per cent overall in the last 15 years."

Much of that increase relates to traffic on trunk roads.

Willie Coffey: Do the materials that we use to de-ice the roads have an effect—ultimately causing the potholes that we see in the spring and summer?

Ronnie Nicol: That is a technical issue that we did not consider in any detail. However, as a friend of mine who is a roads engineer once said, "We build roads to last for 30 years. The problem is that people start to use them." [*Laughter.*] Inevitably, the more a road is used, the more it wears. Everyone acknowledges that.

Willie Coffey: Wise comments.

Nicol Stephen (Aberdeen South) (LD): I was interested in the new reconstruction technique that is mentioned on page 23 of the report. It is clear that some of the changes in the way in which our roads are upgraded or reconstructed could be having an impact.

Committee colleagues will know that in many instances a sandstone-coloured finish has been introduced in the 100m of road before traffic lights, roundabouts and other junctions—particularly but not exclusively on trunk roads. When the finish was first introduced, it was explained to me that a new and slightly experimental approach was being taken in order to give a better grip and to get a better safety record at those junctions. However, the finish is softer and does not last as long as other finishes. Therefore, if you commit to it, you have to invest in maintaining it. There are quite a number of examples of that sandstone finish on the trunk road network having deteriorated markedly.

I will give one important example. Some people here will know the section of road in Aberdeen between Great Western Road and Cromwell Road as you go up Anderson Drive. An entire section has failed where one strip of tarmac joins another that the construction company has been laying. Could the contractor be held responsible for that?

At the moment, a seam is opening up in a section of carriageway that is approximately 600m long. It is the outside carriageway of a busy trunk road going through the centre of Aberdeen, and it is very dangerous. I would be interested in getting a bit more insight into such issues, and I would be interested in a further follow-up report, given the importance of this subject and the substantial deterioration in many aspects of the road network over the past few months.

My final question relates back to Murdo Fraser's comment about the M90, but it applies to any trunk road dual carriageway with a 70mph speed limit. If a significant pothole appears on such a trunk road, is there any time limit or target for repairing it? In some cases, we have had to wait for weeks for dangerous—indeed, life-threatening—potholes to be repaired. Ultimately, this is not only about legal liability and compensation claims; as more than one member has said this morning, these potholes could cost lives.

Ronnie Nicol: Much of the detail that you have asked for is beyond the audit work that we carry out. Certainly there is a problem with surfaces that for safety reasons have been laid on top of roads: they tend to deteriorate because, as you have acknowledged, they have other purposes.

We did not look in detail at how contractors are held to account, but we know from our general intelligence how local authorities operate. They are always seeking to ensure that contractors who have to work on a piece of road restore it to a certain quality, and I have no doubt that all the local authorities have officers who check that type of thing. However, I am afraid that we did not examine the issue in this audit.

As for your question about targets, although we do not know enough to be able to give you the numbers today, we do know that quicker responses are required for certain categories of roads. There might be, say, a 48-hour target for a particularly busy road or major artery; it might be longer for roads that are less busy. However, although those targets are certainly in the system, we did not audit their efficacy.

Nicol Stephen: And the target would be 48 hours rather than, say, 48 days.

Ronnie Nicol: Yes. One of my colleagues has certainly mentioned 48 hours as the target for a fairly high-priority area.

The Convener: I thank the Auditor General and Audit Scotland staff for their contribution to this discussion. I suspect that a future audit committee and, indeed, transport committee of the Parliament will want to return to the issue, given the shared view that the problem is worsening and will be a challenge to us all.

Before we move on to item 4, which is an evidence-taking session on the section 23 report "Edinburgh trams interim report", I will suspend the meeting for a few minutes.

10:52

Meeting suspended.

10:58

On resuming—

"Edinburgh trams interim report"

The Convener: The next item on the agenda is consideration of a section 23 report from the Auditor General, "Edinburgh trams interim report". I welcome to the meeting Sue Bruce, chief executive of the City of Edinburgh Council; Donald McGougan, the council's director of finance; Dave Anderson, the council's director of city development; Alastair Maclean, head of legal and administrative services at the council; and Richard Jeffrey, the chief executive of Transport Initiatives Edinburgh. Sue Bruce will make some opening remarks.

Sue Bruce (City of Edinburgh Council): Thank you, convener. First, I thank the committee for this opportunity to respond to its questions about the Auditor General's report. At the outset, I should advise members that we find the report to be fair and balanced and that we will be putting a report to the council's own audit committee. However, that item is scheduled for March, just after the forthcoming mediation.

Before we get into questions, convener, I should restate that our intention is to be helpful and that we welcome the opportunity to be open and transparent about the Auditor General's report. However, I want to reflect on concerns that I have raised with regard to the forthcoming mediation. As committee members will know, the City of Edinburgh Council and TIE are committed to finding a way of making progress with this initiative and delivering best value for the people of Edinburgh. However, mediation is coming up within the next fortnight, and this will be a fairly critical time for all concerned. The City of Edinburgh Council, TIE and, indeed, the consortium have been putting significant effort into ensuring that we go into the mediation process with a positive foot forward and are open-minded in finding a solution that benefits the city of Edinburgh and wider Scotland. During questioning we might stray into areas limited to mediation—I will take guidance from our legal adviser, if necessary—and if that happens, we will respectfully inform members. Otherwise, we are here to be helpful to the committee.