Transport Strategy in Scotland since Devolution

Iain Docherty* [1], Jon Shaw [2] and David Gray [3]

[1]

Department of Management

University of Glasgow

Glasgow

G12 8QQ

[2]

School of Geography

University of Plymouth

Drake Circus

Plymouth

PL4 8AA

[3]

The Centre for Transport Policy

The Robert Gordon University

Schoolhill

Aberdeen

AB10 1FR

* *corresponding author*

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Author biographies

Dr Iain Docherty is Senior Lecturer in Management and Director of MBA Programmes at the University of Glasgow. His work covers issues including governance, institutional change and public policy.

Dr Jon Shaw is Reader in Human Geography at the University of Plymouth. Among his research and teaching interests are various aspects of transport geography, policy and practice.

David Gray is Professor of Transport Policy at the Robert Gordon University, Aberdeen**.** He specialises in rural transport, and edits the RGU Centre for Transport Policy Paper Series.

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Abstract

This paper critically reviews how the Scottish Executive's approach to transport has developed since devolution. Although there is much to commend, a number of concerns can be identified, including the possibility that a number of strategic infrastructure schemes appear to have been approved on political rather than on technical grounds. It is difficult to know whether the current set of transport infrastructure investment plans represents good value for public money.

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Introduction

The delivery of real improvements to transport infrastructure and services has become a key focus for the Scottish Executive.[1] Although a broad political consensus has emerged since the implementation of devolution in 1999 arguing that the Executive should prioritise the improvement of Scotland's transport system, there is little agreement over whether transport policy as it currently stands is yet truly fit for purpose (Docherty and Hall, 1998; Shaw, 2004; Scottish Parliament, 2006).

The Executive's transport strategy has of late been strongly influenced by its stated desire to focus on the pursuit of economic growth, with social inclusion and environmental protection having been relegated from their initial prominence. This thinking is heavily influenced by the belief that targeted infrastructure improvements can significantly reduce congestion and thus improve journey quality and reliability, despite evidence exploring the limits of this approach, at least in relation to roads (Goodwin et al, 1991; Docherty and Shaw, 2003). In this context, the robust appraisal of capital investment in infrastructure is essential if transport policy is indeed to achieve maximum benefit for the wider economy (Scottish Executive, 2005a; DfT, 2006). Despite this, the Executive has to date avoided the critical issue of appraising and prioritising competing transport priorities *against each other*, instead appraising individual transport schemes in isolation; indeed, there appears to be limited coherence between the top-level economic development goals articulated by government and the transport infrastructure schemes actually taken forward for implementation. Allied with concerns that excessive political influence is being exerted on project choice, significant questions emerge about whether the

[1] The Scottish Executive is the devolved government in Scotland responsible for those competencies not reserved to the UK Parliament at Westminster.

Scottish government's transport investment plans in fact represent poor public management and risk wasting public money.

In this paper we analyse the Scottish Executive's current transport policies in the context of its published approach to transport strategy. While some question marks remain over the ability of ministers to adequately fund their transport plans, we argue that the biggest threat to the development of a first class transport system in Scotland is no longer financial, but rather intellectual and institutional; poor policy development has led to a disjuncture between the stated top level aims of transport investment and the sets of projects that are actually taken forward for delivery.

The paper builds upon work on transport and devolution in the UK already published in this journal (Cole, 2005). After analysis of the financial context for transport policy decision making in Scotland since devolution, we explore the reasons behind the apparent gap between top-level strategy and the actual policy choices made by Ministers since devolution. Of particular importance is the trend towards downplaying economic appraisal of potential schemes in favour of softer, qualitative decision criteria. Finally, we discuss how the newly formed structure of transport governance in Scotland might help improve transport strategy in future. In so doing, the discussion focuses on the critical need to improve the internal coherence of policy making for transport in Scotland (Eden and Cropper, 1992).

The financial context: transport spending in Scotland since devolution

The United Kingdom's historic level of transport infrastructure investment has lagged behind other similar European countries; thus the Commission for Integrated Transport (CfIT) noted that

> In 1996… the UK spent only 0.6% of its GDP on transport investment compared with 1.10% in France, 1.15% in Germany and 1.25% in Italy.
>
> CfIT (2001: chapter 2).

There is some evidence that Scotland's spending on transport has been generally higher than that in other parts of the UK, but the overall picture of modest investment by European standards remains (HM Government, 1998). Scotland, with its extensive rural areas of very low population density, has historically spent a larger proportion of its global transport budget on revenue subsidy for 'lifeline' bus, rail and ferry services than is the case elsewhere in the UK. This brings a consequent reduction in the amount of money available for infrastructure development from the total transport pot (Smyth, 2003). Recent policy initiatives such as providing free bus travel for every adult aged over 60, and subsidised ferry and air travel to the Scottish islands, help perpetuate this high revenue spending profile. Indeed, some commentators have questioned the wisdom of these particular policies, because although they (arguably) enhance social inclusion for some specific vulnerable groups, they do nothing for other groups with accessibility problems, such as the young, job seekers and single parents, and do not improve or extend mobility for economically active groups in the core urban locations leading current Scottish economic growth (Docherty, 2006; Kerevan, 2006).

Figure 1 charts projected transport spending as set out by the Executive in 2005. The figures indicate that overall annual transport spending (excluding the cost of capital for trunk roads) will increase from just over £600 million in 2002/3 to around £1400 million by 2007/8. In historic terms this is a sizeable spending programme, with regard both to capital and revenue support, and has been welcomed not only for the amount of money involved but also because it (potentially) introduces an element of long term planning into the delivery of transport projects.

<Figure 1 here>

The figures require some qualification, however. The annual payments from the government to the operator of the ScotRail passenger rail franchise – which accounts for around 25-30 percent of the total transport spend – are now included in Scottish transport expenditure figures whereas until 2001 they were paid directly by the Strategic Rail Authority in London and did not appear in Scottish expenditure totals.[2] Moreover, although at around 1.2 per cent of Scottish GDP the proposed transport investment will be comparable with benchmark countries such as France, Germany and Italy, the additional expenditure will do little or nothing to close the gap in quality between Scotland's transport system and others in the European Union; indeed doubling expenditure on infrastructure merely stops the gap getting any wider (Docherty, 2004). The historic underinvestment in Scotland's transport is clearly not the fault of the Executive, but to really close the gap between Scotland and other European states, expenditure needs to be increased by a factor of three or four over a sustained period, rather than just two. In addition, Government spending plans are notoriously fickle and subject to a wide range of external influences. There is a concern that recent years have been something of a bonanza period for transport investment in Scotland, and that current levels of transport spending will not necessarily be sustained through subsequent spending cycles (Scottish Parliament, 2005).

A potentially critical point emerges from the Executive's increased exposure to financial risk following the implementation of the 2005 Railways Act, which devolved further rail powers from the UK Government to the Scottish Parliament and Executive (House of Commons, 2005). Since April 2006, Scottish Ministers have no longer required ultimate approval from Westminster on railway policy. This means that, as has been the case for roads for some considerable time, the full costs of major rail infrastructure maintenance and renewals will be financed from the Scottish Parliament's block expenditure allocation, rather than UK funds.[3]

Reconciling transport strategy with project investment decisions

The commitment to steady funding for transport is only one element of a coherent transport strategy. Irrespective of the global size of the budget, the actual impact of transport investment on the economy critically depends on the business case of the actual infrastructure schemes chosen for implementation. In our view, there is a disconnect between the Executive's stated top level strategies – especially its focus on stimulating increased economic growth – and the real economic impact of the infrastructure schemes it has chosen to pursue.

This disconnect results from the fact that current transport policy in Scotland is based on a disparate series of government policy statements, which are difficult to assemble into a coherent view of what transport policy in Scotland is actually trying to achieve, and how. Immediately before devolution, the *Travel Choices for Scotland* White Paper published by the former Scottish Office in 1998 was widely welcomed as a clean break from a long period when Scotland did not have a clear overall strategy for transport (Scottish Office, 1998; Smyth, 2003). Following the implementation of devolution in 1999, the Scottish Executive further developed its 'sustainable' transport policy, with the Transport (Scotland) Act 2001, containing a range of measures focusing on better integration between different transport modes, and improved coordination between transport and other policy areas. A *Transport Delivery Report* (Scottish Executive,

[2] This highlights the misleading nature of the Ministerial foreword to the 2004 Scottish Transport White Paper, which claims that proportion of the transport budget allocated to public transport doubled between 1998-99 and 2003-04 (Scottish Executive, 2004).

[3] In the last resort – for example, the sudden and unexpected collapse of the Forth or Tay Bridges – the Scottish Executive retains access to HM Treasury contingency funds, although allocation of monies from these is not guaranteed.

2002) was designed to take stock of progress and map out a future programme for policy implementation.

Since then, however, successive policy statements have become much weaker, with explicit objectives for transport policy watered down. By 2004, the ministerial introduction to the latest White Paper, *Scotland's Transport Future*, articulated a vision for Scotland's Transport that was at best vague:

> [Our vision is for] an accessible Scotland with safe, integrated and reliable transport that supports economic growth, provides opportunities for all and is easy to use; a transport system that meets everyone's needs, respects our environment and contributes to health.
>
> Scottish Executive (2004:5).

The lack of clarity, coherence and quantification of these objectives makes it difficult to understand what the strategic aims of transport policy actually are. This situation is not helped by the fact that each of the five transport ministers in post since devolution has sought to impose his or her stamp on policy by instigating new policy initiatives.

Notwithstanding this lack of policy precision and the 'objective fatigue' of a succession of ministerial priorities, the Executive takes great pride in its assembly of a very ambitious set of project commitments, which together represent an infrastructure investment plan of around £3 billion. But it is often hard to discern how these projects – either individually or as a group – actually contribute to the *de facto* objective of the Executive's transport strategy, namely to improve the performance of the economy (Scottish Executive, 2004b). This is partly because a number of projects have been promoted for implementation on questionable grounds, but also because the mantra of delivery has over-ridden reasoned debate on how schemes should be prioritised.

The importance of effective project appraisal

In order to help decision makers choose between competing schemes, appraisal economics has evolved into a sophisticated methodology for comparing the benefits and costs of infrastructure investment projects (Glaister *et al*, 1998). Benefit-cost studies have traditionally been applied to understand the economic impact of transport investment, so that those schemes contributing the largest net benefit to the economy can be prioritised. The studies work by relying on assumptions about the number of people who will use the new transport infrastructure or service, and the value of the time saved through faster journeys made possible by the provision of the new link. These time savings are seen as a proxy for increased productivity in the economy (Layard and Glaister, 1994).

Despite their widespread application, benefit-cost studies have been the subject of substantial criticism for several years. This critique focuses on the narrow range of benefits and costs, and the impact of the assumptions regarding the value of time and the discount period over which investment is amortised. In particular, the technique has been heavily criticised for focusing on time savings at the expense of other, less readily measurable costs, such as environmental impact (see, for example, Adler and Posner (2001) for a review of the critiques of benefit-cost studies). Notwithstanding these critiques, the basic technique of benefit-cost appraisal retains merit; although the scale and scope of the indicators included can be contested, the core methodological assumption, that journey time savings are translated into increased economic productivity, is generally regarded to be sound (DfT, 2002).

Since the first major transport prioritisation decision taken following devolution, that of the *Strategic Roads Review* in November 1999 (Scottish Executive, 1999), it appears that the Executive has marginalised the findings of benefit-cost appraisal. Over time, its decisions about whether or not to proceed with particular transport infrastructure projects seem to have become increasingly motivated by other – possibly political – factors. For example, the *Review* brought together detailed analyses of all the major roads proposals outstanding from the pre-devolution period. Table 1 summarises the benefit-cost performance of each project (under the central forecast traffic growth scenario), with schemes ranked from highest Benefit Cost Ratio (BCR) to the lowest. Those schemes that were adopted by the Executive are shown in bold. The schemes in italics are those for which the Executive decided that local authorities should assume development responsibility. It is clear that no relationship exists between the relative BCR performance of the schemes and their success in retaining a place in the Executive's first roads programme. Indeed, more recent Executive decisions have added projects in the lower part of the table to the roads programme while others remain proposed.

<Table 1 here>

The Executive has introduced Scottish Transport Appraisal Guidance (STAG) in an effort to address criticisms of traditional benefit-cost modelling (SACTRA, 1999; Shaw et al, 2006). STAG extends analysis to five key areas: environment, safety, economy, integration and accessibility. Unlike the BCR element of the appraisal, the other components are largely qualitative in terms of the results they produce, with outcomes ranked on a ratio scale from 'strongly negative' to 'strongly positive'. Unsurprisingly, this impacts upon the appraisal process; while STAG represents a more wide-ranging, open-minded approach to appraisal than traditional quantitative BCR techniques used in isolation, this can be a double-edged sword. Clearly it is essential that a range of public policy objectives such as improved accessibility, social inclusion and environmental impacts are incorporated, but the ‘fuzzy’ nature of the qualitative assessment of these additional benefits means that it is possible to justify most potential schemes using the STAG criteria.

As such, the value of the STAG methodology in prioritising competing transport investments is open to question. As currently constructed, STAG allows schemes to be approved despite a marginal technical case. Indeed, it is likely that some schemes given the go-ahead under STAG would not have been approved in England and Wales, where the DfT’s BCR assessment retains greater influence (see National Assembly for Wales, 2006). In policy terms, STAG, at least as it has been applied to date, seems to have encouraged the politicisation of the decision making process, where the selection of schemes for progression depends more on the ability of interest groups to articulate their demands, and to align them with the political cycle, rather than the intrinsic economic value of the projects concerned. The Borders railway route (see the case study in Box 1) – which under the DfT BCR criteria would be at best described as “low value for money” (National Assembly for Wales, 2006:7) – and the controversial Aberdeen Western Peripheral Route, which both impact heavily on high profile marginal constituencies held by the two parties in the governing Labour / Liberal Democrat coalition, are good examples.

< Box 1 here>

More generally, it is also the case that these and other major infrastructure schemes have been adopted by the Executive as part of its committed investment programme without clear appraisal against potential alternatives. Although each of the projects might have a positive BCR, there has been no attempt to rank them, and so it is difficult to have confidence that the total capital investment programme provides the best possible benefits to the Scottish economy. Equally, large revenue funding commitments, such as the introduction of the Executive’s national concessionary fares scheme for pensioners, have not been subject to detailed economic scrutiny. The value for money of such schemes, in terms of both the impact on the wider economy and the opportunity costs of those other schemes not advanced as a result, remains in doubt.

STAG has clear potential to improve on the more limited benefit-cost appraisal method used in isolation because it takes into account a wider range of criteria relevant to a particular transport solution. But the inherent difficulties of not comparing like with like need to be more explicitly recognised, and decisions on strategic infrastructure projects underpinned by STAG need to be rigorously justified. The prioritisation of major infrastructure schemes is highly political, and indeed it is to be expected that transport – and, for that matter, many other investment decisions – will be influenced by political factors. This makes it especially important that Ministers should take every precaution to avoid accusations of manipulating an improved appraisal technique for their own political ends.

This situation raises clear issues for the direction and accountability of transport policy in Scotland. Key among these is transparency in the decision making process. With schemes added to the capital programme on an almost *ad hoc* basis, it is difficult to know whether the current set of transport infrastructure investment plans represents the best value for money for public investment, since very few of the schemes have been appraised against each other. This position is at odds with the stated aims of the Executive’s own policy for transport investment in Scotland. With many of the most recent documents articulating the view that stimulating and supporting economic growth is the primary objective of the Executive’s policies, including those for transport, it seems strange that the economic appraisal of transport investment schemes should be downplayed to the extent as seems apparent.

The new structure for transport delivery in Scotland

In addition to the provision of sufficient finance, any government needs to ensure that effective administrative structures are in place to oversee efficient implementation of transport policy if there is to be effective delivery of infrastructure projects on the ground. Recent reforms represent the most significant change in the systems of transport governance in Scotland for over 30 years. Alongside the almost complete devolution of railways to Scotland (see above), the creation of a national transport delivery agency to manage rail and road investment projects is designed to create a centre of operational excellence, and the formation of statutory regional transport partnerships should help avoid the damaging inter-authority competition for investment seen since the last reorganisation of local government in 1996 (Begg and Docherty, 2002).

The establishment of the new national agency (known as Transport Scotland) is a potentially critical innovation for the future of transport policy in Scotland. The agency is responsible for implementing a new long term National Transport Strategy, which will inform future infrastructure investment decisions. Directly responsible to ministers, Transport Scotland has been given a challenging set of objectives (Table 2).

< Table 2 here >

The national transport agency is potentially a very powerful body, which will drive forward a programme of hard investment focused on rail and road infrastructure. Its core staff are drawn from that cohort of professionals already responsible for the planning and delivery of trunk roads in Scotland, so the Executive’s record of effective on-time, and on-budget delivery of roads projects would appear secure. Yet the transfer of new responsibilities for rail in Scotland from UK government to the agency means that the recruitment of skilled technical staff and senior managers with experience of the rail industry will be essential if the new organisational arrangements are to be effective; this has to date proven difficult and some key posts remain unfilled. Moreover, the agency's narrow infrastructure delivery remit, and the fact that the Executive is retaining control over other modes including buses, ferries and aviation, means that the current plans run the risk of further fragmenting transport delivery in Scotland.

These arbitrary demarcations of responsibility – between those modes that will be preserve of the new agency and those that will remain with the Executive, and between the overarching policy role of government and delivery role of the agency – are potentially counterproductive. The professionals inside the new institutions have a major contribution to make at all stages of the policy process, and across the variety of modes that comprise any truly integrated transport system. Harnessing these to address the deficiencies in the transport policy making process identified in this paper will be at least as important as the efficient delivery of those schemes already programmed over the next few years.

In the longer term, the new agency should assemble the case for implementing particular interventions according to real transport needs, rather than partisan or pork barrel demands for pet projects. The forthcoming National Transport Strategy and Strategic Projects Review represent opportunities to develop a more rational, prioritised national delivery plan for transport, whilst maintaining effective public accountability and an appropriate spread of investment across Scotland's regions. In short, the new structures could help focus minds on issues for which a national perspective is genuinely required, and make the processes through which transport schemes are evaluated and prioritised more transparent and honest so that there is national consensus on a realistic delivery plan for transport investment. STAG should be revisited to address the increasingly vocal calls for a more transparent and efficient appraisal system.

The arguments in favour of a formalised system of regional transport governance in Scotland are well rehearsed. The main critiques of the current system are that most councils are too small to develop, manage and deliver meaningful major infrastructure programmes, and that cross boundary competition for economic investment leads to conflicting or perverse planning decisions between different local authority areas (Begg and Docherty, 2002).

The new structure of Regional Transport Partnerships will formalise the process of transport planning at the regional level, and should begin to reduce the conflict that has characterised the planning system since 1996. Unfortunately, however, the legislation creating RTPs falls well short of what many observers had originally been led to expect (Scottish Executive, 2003). Although statutory transport partnerships have been established across all of Scotland, there is little encouragement in the Act for the majority of them to adopt a full range of powers in the short or medium term. Indeed, it is likely that in reality the status quo will endure in most regions, as only in the west of Scotland is there an institutional legacy likely to sustain the genuine joint working of local authorities in the foreseeable future.

The effectiveness of these new structures at national and regional level would be greatly assisted by the inclusion of a robust and transparent monitoring framework. Not only would this allow effective evaluation of transport initiatives at all scales, but it will also provide critical information on how the new institutional arrangements are influencing the development of policy, and the prioritisation and delivery of investment.

Summary and conclusions

This paper has assessed the Scottish Executive’s approach to transport policy, with discussion focused on three key areas. First, there is no doubt that the Scottish Executive deserves credit for significantly increasing the political and financial commitment to transport investment since devolution. Total outturn transport expenditure will reach almost £1 billion per year by 2006, and at around 1.2 per cent of Scottish GDP, the proposed transport investment will be comparable with benchmark countries such as France, Germany and Italy. It is unlikely, however, that these levels of spending will 'close the gap' in transport quality between Scotland and these countries, and it remains to be seen whether such a high level of funding will be sustained through future spending cycles.

Second, the Executive's approach to prioritising between strategic infrastructure projects has been weak to date. Ministers deserve credit for developing the STAG appraisal process, recognising that transport investment can be justified on grounds other than narrow benefit-cost criteria (SACTRA, 1999). Yet there are indications that a number of 'strategic' infrastructure schemes have been approved on overtly political grounds, and it is difficult to know whether the current set of transport infrastructure investment plans represents the best value for money for public investment. This is because there has been no attempt to assemble a bundle of 'best value' schemes across Scotland as a whole.

Finally, the Executive is currently is the process of restructuring transport delivery in Scotland. The new national transport delivery agency is potentially a very powerful body, which will drive forward a programme of hard infrastructure investment. The agency's narrow infrastructure delivery remit, and the fact that the Executive will retain control over other aspects of transport policy, may prove unhelpful. Recognising the fact that most councils in Scotland are too small to deliver strategic improvements, statutory regional transport partnerships have the potential to develop, manage and deliver meaningful major infrastructure programmes, as well as better integrate Scotland's transport system at local level. Yet the Executive's reforms have fallen short of what many observers had proposed, and the new bodies may not be substantially different to the current voluntary partnerships, which have had a limited impact in delivering innovation in transport planning and delivery.

Even where political considerations are balanced with potential returns more openly, transport projects tend still to be defined crudely according to cost rather than optimum benefits, which can lead to a breakdown in strategy as key projects that can open up wider network benefits are held back. The creation of Transport Scotland could turn out to be a watershed in thinking about transport policy delivery in Scotland, but since the current approach to transport reform focuses more on the mechanisms of policy delivery rather than how to prioritise investment, this is far from guaranteed. It seems the biggest challenge facing the Scottish Parliament and Executive is more fundamental than one of improving the delivery of individual projects in isolation, which has been the focus of institutional and process reform to date.

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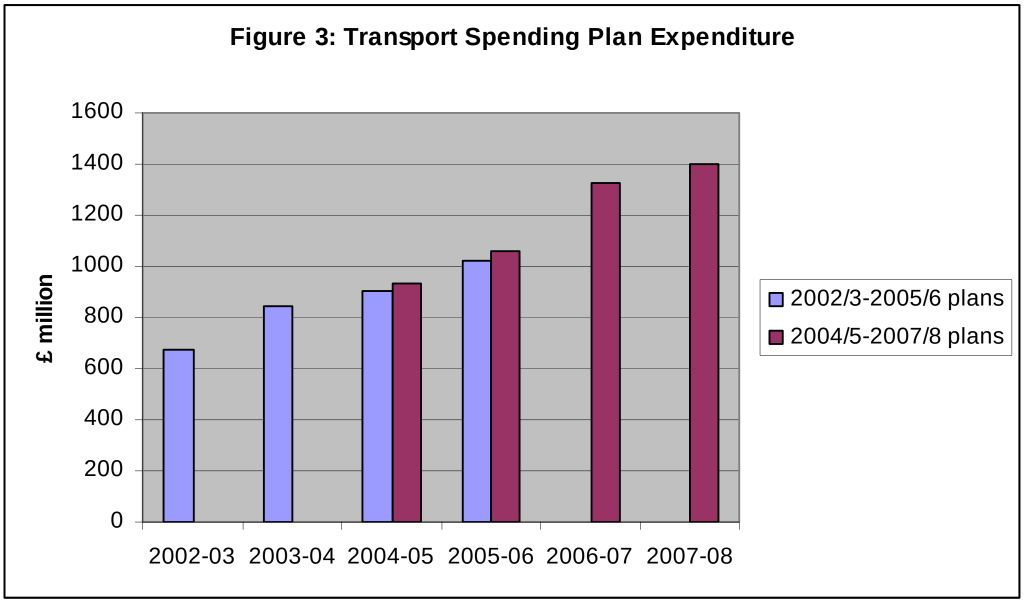
Figures and Tables

Figure 1. Transport spending in Scotland: planned expenditure. Source: Scottish Executive (2004b:47)



Notes

2002-2006 includes spending on rail services, Clyde and Hebrides ferry services, Highlands and Islands Airports, British Waterways, other public transport and Motorways and trunk roads. This does not include spending allocated through local Government spending plans for piers and harbours and concessionary fares. 2004-2008 figures include spending on rail, ferry, bus and air services, concessionary fares, other grants to local authorities and regional partnerships, and motorways and trunk roads. Figures do not include trunk road ‘cost of capital’ spending.

Table 1. Benefit: cost ratios of Scottish Executive road schemes. Source: Scottish Executive (1999)

Scheme	Benefit:cost ratio
A8000 FRB link motorway upgrade	*24.49*
M74 Northern Extension	*16.69*
A78 Three Towns Bypass	**12.6**
M8 Baillieston - Newhouse	8.26
A96 Fochabers Bypass	**5.90**
A92 Fife expressway	5.69
M80 Stepps - Haggs	**5.16**
A985 Rosyth Bypass	4.47
M77 Fenwick - Malletsheugh	**4.18**
New Kincardine Bridge and associated links	**4.05**
M8/M6 Fastlink	3.26
A90 Balmedie - Tipperty	2.48
A1 Haddington - Dunbar expressway	**2.34**
A68 Dalkeith Bypass	2.25
A830 Arisaig - Kinsadel	**1.40**
A9 Helmsdale	1.01
A96 Keith Bypass	0.78

Table 2. Objectives for the new national transport agency. Source: Scottish Executive (2004:51)

To be a centre of excellence, take responsibility for the delivery of the Executive's programme of major projects and promote integration and quality. To contribute to the Executive's promotion of economic growth social justice, regeneration and sustainable development. To work in partnership with local government including the regional transport partnerships, private sector operators, transport users and the wider community. To be outward-focused, delivery-minded and dedicated to continuous improvement, with internal structures and business processes that support this. To take strategic responsibility for the Scottish passenger rail franchise across all parts of Scotland. To take a key role in the development and implementation of Executive policies such as concessionary travel.

Box 1. Case study: Reopening of the Waverley rail route. Source: *Local Transport Today* (2005).

- Executive has recently pledged £115m to re-construction of the line from Edinburgh to Galashiels and Tweedbank
- Remaining £36m to be bridged from developer contributions
- Benefit cost ratio (BCR) of only 1.21, which DfT classifies as offering low value for money
- BCR was previously 0.73 in 2003, later increased to 1.01.
- Upward revision based on new Treasury discount rate (3.5% rather than 6%) over a 60 year (rather than 30 Year) appraisal period
- Patronage forecast based on rather optimistic prediction that 10,000 new homes will be built as a result of the project. This assumption has been queried, however. Only 245 houses have built each year in Midlothian, and 200 in relevant parts of the Scottish Borders in recent years.