

FINANCE COMMITTEE

Tuesday 24 June 2003
(*Morning*)

Session 2

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FINANCE COMMITTEE

3rd Meeting 2003, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)

*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

*Kate Maclean (Dundee West) (Lab)

*Mr Jim Mather (Highlands and Islands) (SNP)

*Dr Elaine Murray (Dumfries) (Lab)

*Mr Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*John Swinburne (Central Scotland) (SSCUP)

*attended

THE FOLLOWING ALSO ATTENDED :

Camilla Kidner (Scottish Parliament Information Centre)

CLERK TO THE COMMITTEE

David McGill

SENIOR ASSISTANT CLERK

Jane Sutherland

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 24 June 2003

(Morning)

[THE CONVENER *opened the meeting at 10:32*]

Item in Private

The Convener (Des McNulty): I welcome members to the third Finance Committee meeting of the session.

The first item on the agenda is to seek the committee's agreement to discuss the second item in private. The committee agreed on 10 June that we should seek to appoint a standing adviser, in line with the arrangements that were set up by the previous committee. As we are now at the stage of considering the merits of individuals, I propose that we move into private session to allow us to do that.

Adviser (Candidates)

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I would like to raise an issue before we move into private session. Has the committee received, in respect of how we go about a decision to appoint an adviser, any guidance on consideration of comments that a potential adviser might have made on the record about party politics and—in particular—on any party affiliations or party political views that he or she expressed? We all want somebody who is seen to be relatively impartial and who did not, for example, take part in the election that we have just been through. I would be concerned if we lacked information about such matters before coming to a decision about any of the candidates who are before us. I seek the convener's guidance on that point.

The Convener: I invite the clerk to comment.

David McGill (Clerk): I have checked the procedure that we adopted and I have established that the current procedure has been signed off by both the Scottish Parliamentary Corporate Body and the Parliamentary Bureau. The Conveners Group is also party to the procedures and the committee has followed them. The groundwork is laid by colleagues in the Scottish Parliament information centre and the person who is most closely associated with that—Camilla Kidner—is at the committee today. She will say more about the procedures that we have adopted.

Camilla Kidner (Scottish Parliament Information Centre): I will outline the procedures for appointing special advisers. We have built up a database—currently of about 350 names—which was populated initially by an open advertisement in the press earlier this year. As the database is built up, SPICe will use its subject knowledge to consider other candidates who are pre-eminent in their fields and who can be suggested to the committee. In building the database, one of the questions that we ask is whether candidates feel that they have a conflict of interests. The question of whether they feel that they have a conflict of interests that might affect their work for the committee is also part of the contract when we appoint advisers. We rely on the candidates to highlight areas of conflict, but it might be that the committee would want to discuss the particular merits of the candidates who are put forward.

Fergus Ewing: I seek clarification. I do not plan to name names, because that would be invidious at this point in the proceedings; however, I have before me cuttings of statements that appeared in *Business a.m.* on 27 April 2003 and in the *Sunday Herald* on 16 March 2003. The cutting from 16 March states that one of the candidates described a senior SNP politician as being guilty

“of making ‘basic errors’ or indulging in ‘creative accounting.’”

The candidate also stated:

"Personally, I know of no academic paper which supports the SNP's fiscal surplus position, and the SNP's own calculation of a fiscal surplus does so simply by varying the estimates of spending and revenue in GERS, leaving its calculations based on the same type of data they criticise."

In the article of 16 March the same candidate, whose name I will not mention at this point, said that he backs Labour in its indifference to the deficit; as far as he is concerned there is a single UK treasury and that is that.

I mention those remarks because it seems to me that a person who, in effect, took one side's part in the political election campaign that we just fought has a conflict of interests. Can the representative from SPICe tell me whether there was a search of cuttings and whether SPICe obtained those cuttings? If not, is that something that should be done?

John Swinburne (Central Scotland) (SSCUP): I suggest that—

Fergus Ewing: Could I get an answer from SPICe first, convener?

Camilla Kidner: Of course—

The Convener: I think that John Swinburne has a point of order.

John Swinburne: I suggest that we draw the information out at any meeting that we have with the candidates and ascertain whether there is any potential bias in their outlook.

Fergus Ewing: I am happy to go along with that suggestion, but could I first have an answer from SPICe, convener? It is a fair question. It is one that I did not wish to ask and I put on record the fact that I raised the matter in private with the clerks and the convener before the meeting. However, we are where we are. Could the representative from SPICe tell me whether the cuttings to which I have referred have been accessed by SPICe?

Camilla Kidner: We did not do a search of cuttings in relation to candidates. We looked on academic websites to ascertain their CVs, publications and general history. We would not usually do a search of press cuttings in relation to advisers, although we might be able to do that in the future if committees feel that to do so would be helpful.

The Convener: I propose that we move into private session to consider item 2. Is that agreed?

Members indicated agreement.

10:38

Meeting continued in private.

12:14

Meeting continued in public.

Work Programme

The Convener: Item 3 is further consideration of the committee's work programme. Members have a series of papers that set out a draft schedule of meetings and suggest inquiries and other work, which arose from the trawl that we undertook. The papers were put together following members' raising of particular issues at the previous meeting.

First, I refer members to the meeting schedule that the Conveners Group agreed. Each committee has, as a starting point, been given a fortnightly slot. Because of the amount of legislation that I expect the committee to consider during the coming year and the range of suggestions from last week's meeting, I have asked the clerk to arrange provisional additional slots that would give us a weekly schedule. It might be that not every additional slot will be required—we can cancel meetings if that is the case—but I thought it best to secure the extra slots, given the extent of our commitments.

The draft schedule should be the starting point. It contains everything that we are obliged to do, and other items to which we are already committed. Our discussion of other items should therefore be conducted in that context.

We have three other papers before us, two of which result from the previous committee's recommendation that we undertake cross-cutting expenditure reviews. The third is a paper that was issued on Friday, which brings together all the suggestions that were made by members last week. That paper takes account of the cross-cutting reviews, so it might be productive to consider that first. David, do you wish to say anything on that paper?

David McGill: I do not have much to add, except to say that, in the light of last week's discussion, we took away all the suggestions that committee members made and factored them into the work programme issues paper. It would be useful if we could keep in mind the schedule of meetings while we discuss what the committee wants to do from September.

The Convener: I have two crucial points to make: first, because of the truncated nature of the budget process—the fact that we are trying to deal with two stages of the budget process in a three-month period between September and November—our routine work on the budget process will be fairly intense, which limits what we can achieve.

It is also the case, as is illustrated in our papers, that a series of legislative proposals will be brought before us, especially because we are at the start of a new session of Parliament. Our job in relation to those proposals is to examine the financial memoranda. For some bills we will want to examine the financial memoranda in depth and to hear from witnesses. The previous Finance Committee was fairly seriously criticised by the Auditor General about its lack of scrutiny of legislation, although that situation was tightened up in the last 18 months of the previous Finance Committee. It is crucial for the credibility of the committee that we give to bills and financial memoranda the scrutiny that is required.

Bills will come forward, and we will deal with them at or around stage 1, so quite a lot of work on fairly significant legislation will arrive on our desks. With that in mind, I have serious reservations about whether it will be possible for us to have discrete inquiries in the first three months of the operation of the committee. We can consider having discrete inquiries from November onwards, but I have serious concerns about holding discrete inquiries before then.

Fergus Ewing: Obviously we have certain work that we have to do and I am sure that we will do it, but I am less concerned about the timing aspects. It is essential that we have a discrete inquiry as part of our role of scrutinising all the public financing of bodies in Scotland. Convener, as you know I argued at the last two meetings, as I argue today, that the matter—other than the Holyrood project, into which there is already an investigation—that is of most concern not only to businesses but to consumers, is Scottish Water and the regulatory regime. It is essential that we have an inquiry into Scottish Water.

I note from the work programme that from September to December we have five possible meeting days—9 and 23 September, 7 October, 18 November and 16 December—when we could proceed with a discrete inquiry into Scottish Water; it is therefore plain that we have the time. I am sure that all members agree that we should be prepared to meet weekly rather than fortnightly if we have a job to do. I argue that we do have a job to do; that job is to conduct a thoroughgoing inquiry into the finances of Scottish Water.

I wish to make a couple of points about why I feel the issue is so important. We learn—from the briefing that members received from the Federation of Small Businesses—that Scottish businesses pay five to 10 times more for water than do their English counterparts. We learn also that, following the introduction of fixed charges, charges for business customers have risen astronomically. We learn, too, about the debt burden problems that the Scottish water industry

faces. The FSB has argued that the committee should review the operational management of Scottish Water, and the Forum of Private Business has also asked specifically that the committee undertake such an inquiry. I understand that every other business body is concerned about the issue and that regular meetings are being held throughout Scotland.

I believe that the water industry commissioner is on record as saying that he thinks that £300 million could be saved from the operational budget of Scottish Water. That is almost—but not quite—enough to buy a Parliament building with. Given that the regulator has argued that £300 million could be saved, the committee has an obligation to see whether that claim has merit. Although my view is that the claim is exaggerated, even if we could save £100 million, the people of Scotland would congratulate us on that.

There is the question of whether other committees might do such work on Scottish Water. Discussion with the clerks has led me to understand—I hope that they will back up what I say—that the Enterprise and Culture Committee is likely to have an inquiry into top-up fees, which will take it until the end of the year, and that the Environment and Rural Development Committee has other business that will take it until the end of the year. The Enterprise and Culture Committee has said that it is unlikely to be available to carry out an inquiry into Scottish Water next year and I believe that the Environment and Rural Development Committee faces the prospect of considering up to eight bills; the clerk will correct me if I am wrong. As someone who sat on the then Rural Development Committee, I know how time consuming that process can be.

Therefore, it seems that the Finance Committee is the only committee in the Parliament that has the remit and responsibility to investigate the serious matter of Scottish Water. That is why I strongly urge members to consider having a thorough inquiry along the lines that the FSB suggests. If such an inquiry is agreed in principle, a sub-committee could formulate its remit, or the issue could be examined at our away day, although formulation of the precise remit is not as important as acknowledgement of the anger that is felt around Scotland about the rises in water charges and the question marks about efficiency, the servicing of the debt and a huge number of other issues surrounding Scottish Water. Scottish Water is the topic of the day; I hope that we can agree to carry out an inquiry into it.

The Convener: The committee faces two propositions. The first is my proposal that we concentrate, in our first three or four months, on developing and refining the budgetary process and on dealing with our responsibilities in relation to

new legislation. That is quite likely to lead to our having to meet nearly every week, if not every week.

If I have interpreted Fergus Ewing's suggestion correctly, the second proposition is that we hold a specific inquiry on the water industry, which should begin in September. I suggest that we vote on whether to do that.

Fergus Ewing: Just before we vote, I agree that the work that the convener has described is necessary, but I think that we could also cope with an inquiry into Scottish Water, because there are five blank days in the diary between now and December. I am not persuaded that those five days will be filled magically by consideration of financial memorandums; that is not likely. I am not suggesting that all five days would be required for the proposed inquiry—four days might be sufficient. I could be wrong but, in any event, it would be for committee members to decide on that. I am not proposing an alternative to the convener's proposition; I am proposing a supplement. I suggest that, in addition to the work that the convener has described, we should hold an inquiry into Scottish Water. I just wanted to make that clear.

The Convener: In principle, I am not opposed to investigating Scottish Water; my concern is about the timetable for doing so. The issue is whether we go along the lines that I am suggesting—in other words, for the first three months or so from September, we scrutinise new legislation that comes forward and the budgetary process, period—or whether we adopt Fergus Ewing's proposition, which is that we also launch an inquiry into Scottish Water as soon as possible after the summer recess. Those are the choices that we have and there is no way to decide on the matter other than to put it to a vote.

Fergus Ewing: I would like clarification. You said that consideration of the financial memorandum might eat into the blank days, which are 9 September, 23 September, 18 November and 16 December. Do you suggest that we act on an ad hoc basis? For practical house-keeping reasons, is not it necessary to pre-book dates?

The Convener: I believe that I made it clear that we are pre-booking the dates. The "blank days", as Fergus Ewing puts it, are dates on which I anticipate we will have to meet and engage in detailed scrutiny. The present problem is to identify which bills will emerge and in which order. Four bills have been presented already, three of which merit some detailed committee scrutiny. We anticipate that further bills will emerge in September or October and that they will all require committee scrutiny. My concern is that we have a substantial work load over that period. Our primary responsibilities are to deal with our work load over

what will probably be the busiest period that the Finance Committee will face.

Fergus Ewing is right to say that the Finance Committee could launch an inquiry into Scottish Water, although particular responsibility for that matter lies with the Environment and Rural Development Committee. I accept that that committee's diary is full, but the Finance Committee's diary is also full.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): We will have an opportunity to consider the matter during the away day. By then, the summer recess will have passed and we will be in a position to reconsider the situation.

The Convener: Fergus Ewing proposes that today we take a decision in principle to undertake a water inquiry.

Mr Jim Mather (Highlands and Islands) (SNP): In the absence of an inquiry, is there any way in which we could use the legitimacy of the Parliament and the Finance Committee to encourage the water commissioner, Scottish Water, some of the business organisations and the trades unions to get together to submit a paper to us? Such a paper could present an agreed position on finances, infrastructure, development and so on to benchmark Scottish Water against others. The paper would outline a future strategy, future opportunities and list current constraints that the industry faces.

The Convener: That is a valuable suggestion and it might even be a precursor to an inquiry on Scottish Water that we may decide to undertake in due course. We can develop those issues during the away day. We have a specific proposal from Fergus Ewing, however, and we should decide on it now.

Who is in favour of Fergus Ewing's proposal that we have an immediate inquiry into Scottish Water?

FOR

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)
Mr Jim Mather (Highlands and Islands) (SNP)

AGAINST

Ms Wendy Alexander (Paisley North) (Lab)
Mr Ted Brocklebank (Mid Scotland and Fife) (Con)
Kate Maclean (Dundee West) (Lab)
Des McNulty (Clydebank and Milngavie) (Lab)
Dr Elaine Murray (Dumfries) (Lab)
Mr Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

ABSTENTIONS

John Swinburne (Central Scotland) (SSCUP)

The Convener: The result of the division is: For 2, Against 6, Abstentions 1.

As a result of the vote, let us direct the business of the away day as outlined in the documents that members received before the meeting. I am happy to hear further suggestions.

Jeremy Purvis: It is probably important to stress that the committee has not voted against an inquiry into the water industry.

The Convener: That is correct. The committee has voted against a specific proposal to launch an inquiry in September. I am happy to develop Jim Mather's suggestion.

Fergus Ewing: With respect, I proposed that we have an inquiry into Scottish Water to start in September and members voted against that. That speaks for itself.

Kate Maclean (Dundee West) (Lab): People were only against having an inquiry in September.

Cross-cutting Review

12:30

The Convener: Item 4 is an inheritance from the previous Finance Committee, which took up a cross-cutting expenditure review into children in poverty. Members have its draft report and explanatory note. As I understand the matter, the previous committee decided, for reasons that are set out in the paper, not to publish the report before dissolution, but asked its successor committee to do so instead. The report was agreed unanimously by the previous committee; we are being asked to fulfil an administrative function that will ensure that a full response to the report is received from the Executive.

While reading the draft report, I found an error in paragraph 76. In line 4, "£1,555m" should read "£11,555m", and "£1,4149m" should read "£14,149m". Those are factual errors in figures, so can we agree to make those amendments for the sake of clarity, and can we agree to publish the report, with the caveat that it was produced by the Finance Committee in the previous session?

Members indicated agreement.

Mr Mather: On page 20, table four gives figures on a cash basis and table five give figures on a resource basis. Why not show the figures on a consistent basis? That would allow us to see more clearly what is happening.

The Convener: We are aiming for simpler figures and more clarity in the budget, but we are not quite there yet. We often have to give figures in two formats to explain the issues.

Jeremy Purvis: I am not sure that the tables should be directly compared. We have to understand whether the tables are distinct.

Mr Mather: The percentage uplift is confusing.

The Convener: The report was done by the previous committee and, unless there are specific modifications—such as the one that I suggested to correct a factual error—we should allow the report to be published. We can pick up Jim Mather's general points in future.

I thank members for their attendance.

Meeting closed at 12:32.

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