

FINANCE COMMITTEE

Tuesday 10 February 2004
(*Morning*)

Session 2

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FINANCE COMMITTEE

5th Meeting 2004, 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)

*Jim Mather (Highlands and Islands) (SNP)

*Dr Elaine Murray (Dumfries) (Lab)

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

*John Swinburne (Central Scotland) (SSCUP)

COMMITTEE SUBSTITUTES

Mr Adam Ingram (South of Scotland) (SNP)

Gordon Jackson (Glasgow Govan) (Lab)

David Mundell (South of Scotland) (Con)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

Mr Brian Monteith (Mid Scotland and Fife) (Con)

THE FOLLOWING GAVE EVIDENCE:

John Blackwood (Scottish Association of Landlords)

David Bookbinder (Scottish Federation of Housing Associations)

Richard Dennis (Scottish Executive Finance and Central Services Department)

Alister McDonald (Bield Housing Association)

Tavish Scott (Deputy Minister for Finance and Public Services)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Jane Sutherland

ASSISTANT CLERK

Emma Berry

LOCATION

The Chamber

Scottish Parliament

Finance Committee

Tuesday 10 February 2004

(Morning)

[THE CONVENER *opened the meeting at 10:02*]

Budget (Scotland) Bill

The Convener (Des McNulty): Good morning. I welcome everyone to the Finance Committee's fifth meeting in 2004. I welcome the press and public to the meeting and I ask everyone who is present to ensure that their pagers and mobile phones are switched off.

The first item on our agenda today is the Budget (Scotland) Bill. I welcome Tavish Scott, the Deputy Minister for Finance and Public Services, and Richard Dennis and Richard Wilkins from the Scottish Executive Finance and Central Services Department. This item has been put on the agenda to allow members to ask any questions that they have on the Budget Bill before we move to the more formal proceedings of considering the bill at stage 2, which is our next agenda item.

I welcome Brian Monteith, who has joined us. I understand that Tavish Scott does not intend to make an opening statement, so I open the meeting for members to ask any questions that they have on the documents.

It seems that members have no questions to ask under this item.

The Deputy Minister for Finance and Public Services (Tavish Scott): I will just leave you to it, convener.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I would not want to disappoint the minister, who has taken the time and trouble to appear at the meeting. He will obviously be aware of the recent coverage of expenditure trends in Scotland since 1997. We have the benefit of a paper from the committee's adviser on the changing patterns and the percentage change in expenditure from 1998 to 2002. On the basis of that analysis, it appears to me that, during that period, expenditure on education increased by 20 per cent, expenditure on health increased by 19 per cent, and expenditure on law and order increased by 23 per cent. However, for culture, media and sport the increase in expenditure was 68 per cent, for housing it was 136 per cent and for other environmental services it was 82 per cent. Of course, the Executive will argue that the

rising pattern of expenditure has allowed improvements to be made in each sector, but a fair criticism can be made and I would like to put it to the minister.

The Executive parties have argued at two elections that their priorities are to tackle crime, to improve the national health service and to deliver higher standards in schools, but we see from the analysis in the paper by our adviser that the rises in expenditure in those areas have been the smallest by a considerable degree. There have been much higher levels of expenditure in areas that were not identified as priorities at either of the two Scottish general elections.

The paper is serious and substantial, and it contains considered criticism. I hope that we will receive a response from the minister to what appears to be a departure from the priorities that the Executive has stated, not least at last year's Scottish general election.

The Convener: Obviously, the item that we are dealing with is the Budget Bill, but I will let the minister answer in whatever way he chooses.

Tavish Scott: I will do my best to deal with Mr Ewing's point, which I recognise. I understand that the committee will deal with the matter later on; it relates to the report "Government Expenditure & Revenue in Scotland 2001-2002". I hope that Mr Ewing will not immediately bite my head off, but—dare I say it—there are figures, figures and more figures. The answer depends on how the figures are pulled together. My understanding is that your adviser's paper draws numbers direct from the GERS report, which in turn draws numbers from the public expenditure statistical analyses that are produced by the Treasury. Frankly, I think that many things can be done with the figures, and that raises a point about our overall focus on time-series information.

I hope that Mr Ewing will take my point in the spirit that I intend it, as I am trying to make progress with the committee. If I heard Mr Ewing correctly, he mentioned figures that go back to 1997. The committee has made his argument in relation to expenditure at several recent committee meetings, and it has certainly done so when I have appeared before it. In that context, I will work with the committee, both at an official level and through my appearances, to see whether we can find ways to make the information understandable, transparent and as easy to follow as possible. However, I must point out that because of the many changes that have occurred and the different accounting methods—the committee is entirely familiar with those and I recognise its expertise on the matter—things are not straightforward.

We can certainly pool statistics; Richard Wilkins and Richard Dennis could illustrate that in great detail if the committee wanted them to do so. We will read the *Official Report* of the committee's deliberations on its adviser's paper carefully, but I suspect that it is better for us to focus collectively on what we can do with the time-series data to help both the committee and the Executive to achieve a statistical analysis that is helpful to us all.

Fergus Ewing: I did not mention 1997. The period that I mentioned starts with 1998-99, but my point is the same. As I understand it, the Executive's response to the publicity in *The Herald* was that it is not accurate to consider spending over a five-year period because the Executive was not in existence for the whole of that period and only two of those years have outturns that we can study. The reply to that, as we have heard from the committee's adviser, is that that should not make a significant difference to the trend because the first years were years of expenditure freezes—that is well known by everybody; we remember the time of prudence.

Given what the minister said about there being figures, figures and other figures—or lies, damned lies and statistics, if one is allowed to utter such a phrase in the Parliament following last week's ruling—I wonder whether it would be helpful for him to have the benefit of the papers that we have. He could let us have a response when he and his advisers have had the opportunity to study the analysis that has been presented to us, and we can come back to the matter at a later date.

Tavish Scott: I am certainly happy to deal with the matter in the way that Mr Ewing suggests. I will illustrate one of the difficulties that I hope he accepts that we have with the figures. The figure for culture, media and sport for 1997-98 excludes most spending in those areas by local authorities—I am sure that the committee accepts that such expenditure exists—yet the figure for 2001-02 includes local authority spending. My understanding is that a like-for-like comparison would show an increase of 10 to 15 per cent rather than 123 per cent, which is the figure that is given. I do not use that example to denigrate the comparisons that Mr Ewing made; I am showing simply that the situation is not straightforward. It would help us if we could reflect on the paper, which we have only just seen, and respond to the committee later.

The Convener: We have an agenda item on the adviser's report, so we will discuss it more when we reach that item.

Fergus Ewing: I will raise a general point that relates to section 3 of the bill, which is on cash authorisations from the Scottish consolidated fund. The authorisations cover £21 billion for the

Scottish Administration; £9 million for the Food Standards Agency; £49 million for the forestry commissioners; and £88 million for the Scottish Parliamentary Corporate Body to pay for the thing down the road. Those are all large sums of money.

I have made my general point in debates, but I say with respect to the minister that it has not had a response—perhaps that was simply an oversight. To be fair, and in the interests of accuracy, I say that the Conservatives, too, have mentioned the point. It is felt strongly that we are not securing value for money from public services. That can be illustrated in several ways—I have sought to do that in debates—by reference to examples, such as the spending of hundreds of thousands of pounds on hedgehogs or on luxury cars for all sorts of public servants who could perhaps pay for such cars themselves.

Anyone can come up with examples, but my concern—and the relevant question—is what controls are in place to ensure that spending decisions, whether by departments, agencies or quangos, are made with due regard to securing value for money and avoiding wasteful expenditure. Are the existing controls—if there are any—adequate? Does a strong case not exist for intervention to prevent many decisions—some examples of which I gave—that the public increasingly regard as wholly unjustified and indicative of an approach to the expenditure of public money that is veering out of control?

The Convener: I am interested in how Mr Ewing links that to the bill, but I invite the minister to respond to his comments.

Tavish Scott: I agree with Mr Ewing that it is always possible to pick out one or two examples, whether they involve a mammal or anything else, to illustrate a point. I hope that Mr Ewing and the rest of the committee accept that we always drive for value for money in all expenditure by the core Scottish Executive and by all the agencies and other related bodies.

The judgment to which Mr Ewing alludes is about the extent to which a finance minister should micromanage that £21 billion of expenditure. I hope that Mr Ewing accepts that even with 24 hours in the day, it would be curious for finance ministers to involve themselves in every organisation and department and in every bit of management to the extent that he described. The mammal example could suggest that ministers—whether a finance minister or the appropriate portfolio minister—should be involved in the day-to-day management decisions of the body to which Mr Ewing alluded.

I hope that Mr Ewing accepts that that argument involves a balance. All levels of public

administration have a management structure. One can criticise or support that, but the principle surely is that we devolve decision making on budgets to line managers who are charged with delivering value for money in their budgetary year against stated overall political perspectives and priorities. If Mr Ewing wants to write to me or present evidence about what he sees as serious failings on budget items, we and the portfolio ministers concerned will of course be happy to examine that.

The overall principle of driving for value for money is clear. I suggest to the committee that that will become ever more important, simply because of the tighter spending restrictions that are likely to apply in the future because of the overall situation in the country, about which anyone who reads the financial papers will know. Such restrictions will also drive the process.

I spent five years as a local councillor and I well remember the strictures caused by cuts that previous Administrations imposed and what they meant for local government, which several committee members who served in local government will well know about. I am familiar with how that works, but the argument involves a balance about the extent to which ministers should micromanage departments and non-departmental public bodies. We must live with that balance and make it clearer that, at the centre—if that is at the core of Mr Ewing's argument—we expect every pound to be spent as efficiently and effectively as possible in pursuit of the Administration's priorities.

10:15

Dr Elaine Murray (Dumfries) (Lab): My question is actually about the bill. Section 4 refers to contingency payments from the consolidated fund. The documents that I have do not show what is in the contingency fund, how it is varied and what payments have been made from it.

Tavish Scott: I will let Richard Dennis deal with that, if that is okay.

Richard Dennis (Scottish Executive Finance and Central Services Department): Section 4 deals with what happens when an item of expenditure arises for which we have yet to seek parliamentary approval and for which there is no time to seek parliamentary approval. The Minister for Finance and Public Services has a standing power to advance up to £50 million without coming to Parliament first, provided that he does so as soon as possible after making the advance. That prevents delay in vital expenditure that must be made day to day before we can make a revision.

The bill does not cover the reserve, because the reserve is not voted. We return to the Parliament to seek authority to spend money when we know

what it will be spent on. Money that is drawn down from the reserve appears in the autumn and spring revisions during the year.

Details of the numbers in the bill are set out in the draft budget from September, which members may remember. That document shows that we plan a contingency fund of £58.37 million for 2004-05.

Dr Murray: That is reported annually. When payments are made, how are they reported to Parliament? Is a report laid in the Scottish Parliament information centre?

Richard Dennis: No.

Dr Murray: Is sanction sought?

Richard Dennis: If a spending minister writes to Mr Scott or Mr Kerr to say that £5 million is needed for this, that or the other and the finance ministers eventually agree, before they can spend that money from the contingency fund, they need to come back to Parliament in the autumn, spring or summer revision to seek Parliament's approval for that extra expenditure for the portfolio budget. When we talk about the spring revision, members will see an advance to Scottish Opera of £4 million from this year's contingency fund. That is how the process operates.

Jim Mather (Highlands and Islands) (SNP): I am interested in paragraphs 7 and 8 of the introduction to the spring budget revision, which concern national insurance contributions. I struggle to understand the dynamic whereby national insurance increases are offset exactly by reductions in the funding that is sought from the Scottish consolidated fund. Will you talk me through that?

Tavish Scott: Mr Mather is right about the exact balance of those figures, which implies no impact on Health Department spending. In essence, a process takes place that involves a balance of national insurance income and funding from the consolidated fund.

I will be blunt about the manner in which the forecasting was done, which is the essence of your question. We made a low estimate of national insurance contributions in line with there being a small increase in the level of contributions from last year, but the actual increase was much higher. As I have stated, there is no effect on the overall health budget; all that happens if national insurance income is higher than expected is that there is a balancing reduction in the resources that are sought from the Scottish consolidated fund. The money available for patient care in Scotland is not affected. As your question infers, this is to do with forecasting. The forecast was low and we therefore had to adjust the resources being sought from the consolidated fund when the actual increase became clear later on.

The Convener: Jim Mather is disappearing into the spring revision, which we have not yet got to on the agenda. I suggest that we hold that back until we get to that point.

Jim Mather: Fine, but there is more.

The Convener: Yes. I will come back to you on the issue.

I will ask a couple of questions. One is about payments of sums accruing to former members of the Scottish Transport Group pension scheme. I would like more information about where we are on that. I know that a mechanism has been put in place to ensure that people are paid. Will the money remain in the Scottish Executive's budget until such sums can be paid? Can you give us any further information about how the matter is being handled and the rate at which payments are currently being made?

Tavish Scott: We may have to write to you on that question, unless Richard Dennis can provide more information.

Richard Dennis: I am fairly sure that the answer to the first question is yes, but we will have to write to you with the answer to the second question and when we do we will confirm the answer to the first one.

Fergus Ewing: On the same topic, I recall that one of the rules that was applied to the distribution of the funds to the beneficiaries was that if a qualifying Scottish Transport Group pensioner had died, the payment to a surviving spouse would be only 50 per cent of what the pensioner would have received on survival at the qualifying date. The qualifying date was fixed, which had the consequence that some widows and widowers received the full payment and others received half of it. I have some constituency examples of—if you like—winners and losers.

When the matter came before the Public Petitions Committee for a mini inquiry, the minister responsible stated that if it transpired that more money was left than had been anticipated and that extra money was required over the outturn amount needed to meet the commitments under the rules of the scheme, that additional money might be reapplied for the benefit of those who would lose out under the 50 per cent decision.

I do not expect the minister to answer now but, given that the Finance and Central Services Department is looking into the general issue, could we perhaps have a statement on that? Specifically, how much money has been paid out and is there any surplus left? If so, will the surplus be redistributed to beneficiaries—entitled groups—and if so how? If not, will that surplus or any part of it be taken from the pensioners and handed over to the Government? I hope that that latter

instance will not occur, if there is the capability to make up the 50 per cent payment to the full amount.

I am sorry to go on at such length and I do not expect a reply now. The issue is of real importance to many widows and widowers of bus drivers, bus conductors and seamen throughout Scotland. The payments involved are not a great amount in comparison with the sort of handout that, for example, Mr Davies might get from the BBC.

Tavish Scott: It is not for me to comment on the latter point, but we will reflect on the points that Mr Ewing has made in the *Official Report* and we will put as much as we can into the formal response to the committee.

The Convener: It might be useful to get clarification about where you are in that process.

My other question is about the aftermath of the foot-and-mouth outbreak. Clearly a transfer of payments is taking place from Westminster to the Scottish Executive to meet outstanding costs associated with payments to farmers and so on. Is it possible to get a statement that clarifies how much money has been used in that way over a period of time, so that in a sense there is a closing of accounts in terms of accruals and payouts?

Tavish Scott: Again, we would be happy to write to the committee with those details. My recollection is that there was some internal Executive expenditure in relation to both tourist boards and the local authorities concerned. As you rightly point out, other moneys relate to some of the agricultural measures that were put in place at the time. We will put the details in our formal response.

Professor Arthur Midwinter (Adviser): I have some points of clarification that relate to the question that Mr Ewing asked earlier.

I noticed that the definition of culture, media and sport had changed over the five years, but I thought that it was such a small element of the total that it would not really affect the arguments.

I have a number of questions for the minister. First, I make the observation that it is refreshing to hear an SNP member of the Parliament challenging the minister on the basis of GERS data and the minister responding by questioning the data. That is a role reversal from the usual position.

I have always been of the view—as are most academic researchers—that the spending data for the identifiable expenditure are pretty robust. It is in the public domain that Professor Gavin McCrone, who used to be in charge of these things, has said that. I was not wholly convinced by the arguments that the minister made about

differing accounting systems, mainly because I had always been under the impression that GERS dealt with actual expenditure rather than estimated expenditure, which is why there is a two-year lag.

The Convener: Are we seeking technical clarification from the minister?

Professor Midwinter: My point is related to that. I certainly would not accept that there have been major changes in the definition of education, health, roads and transport, and housing—the big spending programmes—which is the point that the minister was trying to make. It would be helpful if, in writing back to the committee, the minister could clarify for us whether GERS is based on actuals and, secondly, whether it is based on Treasury definitions, as it is drawn from the public expenditure statistical analyses, in which case many of the changes that take place within the Executive's budget will still be recorded within the categories that the Treasury has set.

Tavish Scott: We will be happy to come back to Professor Midwinter on all those points. The first that I knew of the matter was when I read about it in *The Herald* yesterday. The committee is considering today the papers that are on its agenda. There is only so much that we can do when we are meant to be formally presenting evidence on the Budget Bill and on the spring revision order. I apologise to Professor Midwinter for not having full answers to all his detailed questions, but we will come back on the detailed points that he has raised as quickly as we can.

The Convener: Thank you. That would be helpful.

Jeremy Purvis has a question. Is it on the budget bill?

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): It is. It struck me, when we were talking about the contingency, that housing association residents in my constituency who were affected by floods last year were told that they would not get any money out of the Bellwin scheme because it did not apply—the cost is nearly £1 million and almost 50 people are still decanted. I am sure that they will be delighted to hear that £4 million out of the contingency fund is going to Scottish Opera. What is the basis on which such decisions are made?

Tavish Scott: I am sure that Mr Purvis will be familiar with the Bellwin formula in relation to the constituency case that he mentions. The Bellwin formula operates by paying a percentage of claims made by a local authority in relation to natural disasters, natural events and particular circumstances that are beyond the wit of man to plan for, such as flooding. It is a process by which the local authority makes an initial application to the Executive and then follows it up with a detailed

case, which is judged against a set of criteria. I do not have the criteria with me, but we could obviously provide them to Mr Purvis if that would be helpful. It is a formula that has existed for many years. I hate to think who Mr Bellwin was.

The Convener: Lord Bellwin.

Tavish Scott: Indeed. No doubt it was a distinguished gentleman who came up with the criteria. We shall certainly provide that information for Mr Purvis, but that is the system. To be fair, there is not much comparison between a scheme that is based on an application by a local authority to the Executive in those specific circumstances and the funding of Scottish Opera through the contingency fund, which is done on the basis of a ministerial application to finance ministers.

The Convener: I would like to move on to the second item on the agenda, which is formal consideration of the Budget (Scotland) Bill at stage 2.

Ms Wendy Alexander (Paisley North) (Lab): Could I raise one point before we move on?

The Convener: All right.

Ms Alexander: I apologise for being late, minister. I recall from when I was a minister that the worst thing was controversy that blew up in the press 24 hours before one's committee appearance, so I do not want to press you on any of the details of that. However, I would like to invite your comments on the paper that came to the committee this morning from the committee adviser, Professor Arthur Midwinter, which says:

"the Executive has stated that it was not accurate to look at spending over a 5 year period, as the Executive was not in existence for 2 of those years."

I do not wish you to comment on that now, but that seems to me to be a dangerous statement. If that is indeed the Executive's position, it represents a step backward from what has been the central thrust of the Finance Committee over the past year, which is to try to achieve long-term trend data. Will the Executive reaffirm—not necessarily now, but afterwards—that it is willing to provide long-term trend data? If that statement does indeed represent the position, it supersedes what was said in the stage 2 budget report.

Much more worryingly, it suggests that it is not the Treasury's job to tell us how much we were spending five years ago, but nor is it the Executive's job. That would put Scotland in the invidious position, under a nominally federal arrangement, of not knowing how much was spent five or six years ago and how much is spent now. It is simple, factual spending data. Although we do not have a sovereign state in Scotland, we have a federal state and in these circumstances, particularly when—as officials will know—there

have been extensive discussions with the Office for National Statistics in the past week about how we ensure the quality of statistics relating to Scotland, we need to set a good example by ensuring that we have comprehensive statistics in Scotland.

I do not expect a full response now, but I assume that that statement was a slip of the tongue and does not supersede the discussions that were held and the commitments that were made in stage 2 of the budget report.

The Convener: The minister had already partly responded to that question at the outset.

Ms Alexander: My apologies.

The Convener: The point has been made, however, and the committee's view is pretty firmly that we are looking for trend data and that we want to use trend data as a basis for analysis. The minister will be asked to respond to the issues that are raised in the paper, and there will be a chance later in the meeting to discuss the matter in more detail.

Budget (Scotland) Bill: Stage 2

10:33

The Convener: Members have copies of the bill and a note from the clerk. This paper was originally discussed at our meeting on 13 January, but I thought it was worth tabling it again to give members a quick reminder of the procedures for considering budget bills at stage 2.

Before we start our formal proceedings, I draw members' attention to two points in the paper. First, only a member of the Scottish Executive can lodge an amendment at this stage. Secondly, as is stated in paragraph 5 of the paper,

"it is not possible to leave out a section or schedule of the Bill by disagreeing to it."

To do that, an amendment would have to be lodged.

With that information in mind, we now turn to formal proceedings on the bill. We have no amendments to deal with, but the standing orders oblige us to consider each section, each schedule and the long title, and to agree each formally. We shall take the sections in order, the schedules immediately after the sections that introduce them, and the long title last. Fortunately, standing orders allow us to put a single question where groups of sections or schedules fall to be considered consecutively, unless members disagree. I hope that members will not be too pedantic. If members do disagree, I shall have to put a separate question on each section and schedule. I ask that we try to roll up the sections and the schedules, unless members are disposed not to do that.

Fergus Ewing: I am entirely disposed to do that, but since we are not permitted to lodge amendments, I wonder whether I might just put a couple of questions to the minister before we move into the formal session.

The Convener: We are actually now in the formal session. The opportunity to ask ministers questions was under the previous agenda item. I am afraid that you have lost your chance.

Fergus Ewing: I do not quite see why. It is a very simple request.

The Convener: I am sorry, but we are now in the formal process of dealing with the bill at stage 2. The opportunity to ask questions, as I made clear at the start, was under the first item on the agenda.

Fergus Ewing: I know that we are not allowed to lodge amendments, but I would have thought that seeking an assurance from the minister would be the correct thing to do at this stage. It is not very complicated and I very much doubt that the minister will make a meal of it.

The Convener: I shall indulge you slightly, Fergus, but only slightly.

Fergus Ewing: It is simply a technical question. The budget process is obviously, by its nature, difficult and complicated, and the task of compiling the appropriate limits that are in the bill takes a great deal of effort on the part of the minister's officials, which we all recognise and appreciate. Is the minister able to provide an assurance today that, so far as he knows, the figures and provisions in the bill are those that are required and that there is no reason at the moment to suggest that any of the figures or provisions will require further amendment?

Tavish Scott: Mr Ewing is in many ways more familiar than I am with the process and he knows that we have spring and autumn budget revisions every year—to make changes that come inevitably as the process continues. The figures are set at this time, but they are always subject to the amendments that go through the spring and autumn revisions. The only assurance that I can give is that we shall use the spring and autumn revisions as we have always used them, and as we shall continue to use them, in the normal manner in which budget bills are taken forward.

The Convener: I now move us back to the formal process.

Section 1, schedules 1 and 2, section 2, schedules 3 and 4, sections 3 to 5, schedule 5 and sections 6 to 10 agreed to.

Long title agreed to.

The Convener: That ends our stage 2 consideration. I thank the minister for his co-operation.

Subordinate Legislation

Budget (Scotland) Act 2003 Amendment Order 2004 (Draft)

10:37

The Convener: The committee has before it the draft instrument and the budget documents that set out the background to the proposed revision. I inform members that the Subordinate Legislation Committee considered the instrument on 3 February and had nothing to report.

I should explain that the instrument is an affirmative instrument and cannot therefore come into force until it is approved by the Parliament. The committee will therefore debate the motion in the name of the Minister for Finance and Public Services, which asks the committee to recommend approval. If it does so, the Parliamentary Bureau will lodge a motion seeking parliamentary approval for the instrument. I shall ask the Deputy Minister for Finance and Public Services to move motion S2M-834, and then the motion will be debated.

Under the standing orders, that debate can last no longer than 90 minutes. At the end of the debate, I shall put the question on the motion to the committee. It is entirely possible, of course, that the debate will last much less than 90 minutes, but the maximum time is 90 minutes.

I now invite the Deputy Minister for Finance and Public Services to speak to and move the motion.

Tavish Scott: Thank you, convener, for your consideration of stage 2. It has been a helpful process. As I was saying to Mr Ewing just a moment or so ago, the spring budget revision is a regular piece of Government business, but it might be helpful to explain some of the features that will be of interest to the committee.

There is an apparent increase—of more than £2 billion—in the Executive's budget and in the overall request for resources. Members will see that if they look at table 1.2 on page 6 of the supporting document, "Scotland's Budget Documents: The 2003-04 Spring Budget Revision to the Budget (Scotland) (No 4) Act for the year ending 31 March 2004". It is the result of two accounting changes with which the committee will be becoming increasingly familiar, but which have no practical impact on our spending. The first is our old friend, financial reporting standard 17, which I note was discussed in an earlier round of the Budget (Scotland) Bill.

In the bill, the adjustment included is the forecast change in liabilities for 2004-05. The number in the spring revision is so much larger

because it covers not only the change for 2003-04, but that for the two previous years. We are merely following the dictates of new accounting rules and the advice of the Treasury. That is partly offset by the second change—an increase in the share of the health budget notionally funded from national insurance contributions, which Mr Mather asked about earlier. That appears in the revision as a reduction of £830 million in the resources sought by the Health Department. As we discussed in Motherwell—again, I think it was Mr Mather who raised the point—there will be no impact on health spending.

Both changes illustrate the difficulties of providing genuinely comparative figures over a number of years, which the committee has requested. It is clear that we will remember to adjust year-on-year comparisons to take account of numbers of such scale, but the many hundreds of much smaller similar changes take time to track down. I strongly agree with the aim of providing the committee with as much accurate data as possible, but I ask members to bear with us on that, as it is inevitable that the process will take time. In the coming weeks, I am sure that my officials will be happy to discuss with the clerks and the adviser the work that is already under way. The point about the scale of those changes and adjustments should be borne in mind in that context.

I also draw the committee's attention to the table on page 2 of the supporting document to the Budget Bill, which tries to provide more information on investment. That issue has been raised consistently in recent committee meetings. I would welcome members' views on whether such information is what they are looking for and on any further improvements that we can make on the presentation of it.

I draw the committee's attention to the most significant of the internal Executive transfers in the spring revision—the movement of £85 million from the Environment and Rural Affairs Department to the Health Department. In effect, slippage on Scottish Water's capital investment programme has allowed us to transfer additional resources to the Health Department, which will be repaid next year. Such in-year adjustment of budgets is normal within departments; it is only the scale of the adjustment and the fact that it is being made between departments that makes the present example different.

Some of the additional £85 million will be issued to national health service boards to provide additional capacity within the NHS—and, where available, the private sector—to reduce waiting times. In addition, monitoring returns from NHS boards to the Executive back in November suggested that there might be a need to bring

forward part of next year's allocations to this year, to fund additional patient care costs. The additional funding will allow that to be done without the Health Department exceeding its departmental expenditure limit. The alternative course of action would have been to ask the trusts involved to take management action to ensure that they stayed within their budgets for the year.

I know that the committee has a strong interest in water spending at the moment and that it had detailed discussions with my colleague Mr Wilson last week. I have read the *Official Report* with considerable interest and I am happy to repeat his assurance that the provision will be returned to water next year. We are talking about a loan from one department that wishes to spend more of its budget next year to a department that wishes to spend more of its budget this year and thus avoid some of the difficulties of annuality.

Those are the main points of interest on the spring budget revision. We will do our best to answer any questions.

I move,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2003 Amendment Order 2004 be approved.

The Convener: Just for reference, I think that the most relevant section in the spring budget revision document is schedule 2.2 for each of the departments.

I think that we interrupted Jim Mather as he was pursuing a particular line of inquiry, so it might be appropriate to allow him to go back to that.

Jim Mather: I am still struggling manfully with the national insurance adjustment and the statement that it is exactly offset by the amount of funding that is sought from the Scottish consolidated fund. I have not totally got my head round that. In schedule 3.1 for the Health Department, I can see the adjustment of £830 million, but the fact that the adjustment on the other side does not seem to leap out at me does not convince me that everything is as it should be.

Tavish Scott: Richard Dennis will be happy to deal with your extremely technical point about where the adjustment leaps out.

10:45

Richard Dennis: A curious quirk of our financial system is that you will not see it leaping out, because when we bring budget bills and revisions to the committee, we are seeking parliamentary authorisation for spending out of the Scottish consolidated fund. With health, we are changing the purely notional split between the money that is coming out of the Scottish consolidated fund and the money that is coming from the national

insurance fund. The total budget remains exactly the same, but a portion of the spending is deemed to come from that other source which, technically, the Parliament does not vote on, so it does not appear in our documents. Members will see only the £830 million apparently disappearing from the budget.

Jim Mather: Sure. There is a fundamental point on that, which should be borne in mind for future reference. I find the lack of cross-references and an audit trail in the budget revision document a severe miss compared with what one would find in the private sector. The document is difficult to read. Although tables 1.2 and 1.3 provide the headline summaries, they are not adequately cross-referenced to the detailed sections. There is sufficient space in those tables for another column to list the relevant sections and page numbers, which would facilitate easy reading of the document.

Tavish Scott: We can reflect on Mr Mather's points. I think he will accept that, in some senses, there is no comparison between financing in the private sector and Government financing. Whether that is a good thing or a bad thing is neither here nor there: I used to read business balance sheets and I take the point.

We will certainly reflect on the cross-referencing issue. Off the top of my head, it does not strike me that it would be impossible to find some mechanism involving notes that would provide the clarification the member seeks. If he leaves the matter with us, we will be happy to consider it.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): I wonder whether the minister can help me. I am probably misunderstanding what is going on on page 10 of the supporting document, which relates to the Environment and Rural Affairs Department. Under the heading "Rural Development", mention is made of a

"Transfer from Fisheries to meet estimating changes for the range of Rural Development demand led schemes".

That appears to suggest that sums of money are being diverted from fisheries to other matters. Will you explain why that is and whether it has any impact on the possibility of further compensation being made available to the fishing industry, if that case is proved for this year?

Tavish Scott: I would have to check with the department. That question drills down to a level of detail that, as you rightly observe, is not found in the formal documentation. Richard Dennis is skimming through some pages to see whether he can find a note that would give you a precise answer. If we cannot answer today, we will be more than happy to come back to you.

Mr Brocklebank: There is a note at the top of page 11, which says:

"Transfer of net savings mainly from slippage on construction of a new Fishery Protection Vessel".

The two issues may or may not be related, but the deeper question that I am trying to get at is whether money is still available to compensate the fishing industry this year, if the Executive decides to do that.

Tavish Scott: You would expect me to say that money is available for any spending priority that ministers consider to be appropriate at the time, within the constraints of the available budget. That could include spending on health, education or whatever. It is not for me to make up policy on the hoof. Much as I might like to do that on occasion, I will not do so this morning.

You are right about the Scottish Fisheries Protection Agency. Off the top of my head, my recollection is that there was slippage in the scheduling and profiling of that expenditure, but if you leave the matter with us we will provide you with a detailed answer as soon as we can.

Dr Murray: I am not necessarily expecting you to answer my question, as you are not the minister responsible for the Scottish Prison Service, but I was a little puzzled to see on pages 74 and 69 an apparent reduction of £12.5 million in the SPS's running costs. Over the years, we have had some quite difficult discussions about whether the prison service should be partially privatised and about the use of private prisons. Given the doubt about the figures for the number of people who are likely to be in prison—they seem to have been revised quite substantially—I am quite surprised to see a suggestion that the SPS's running costs have fallen so substantially. Do you have any idea why that is, or should I be asking the Minister for Justice?

Tavish Scott: Here is a piece of paper that gives me the answer, if I may be forgiven for describing it in that way.

The Scottish Prison Service has general efficiencies in train by which it plans to effect a transfer of £12.5 million from current expenditure to capital expenditure for reinvestment in further capital projects. To some extent, that answers Dr Murray's question. The Scottish Prison Service requires major investment to create an estate that is fit for purpose. In the estates review, the Scottish Executive announced proposals for modernising the prison estate over the next five to 10 years.

Obviously, we will seek further clarification if Dr Murray wants more detail. The general point is that the £12.5 million is being switched from current expenditure to capital expenditure for investment in capital projects.

Dr Murray: Have we any detail about that investment? Is the investment being made under the private finance initiative?

Tavish Scott: I do not have that detail with me at the moment, as the matter is not precisely within our portfolio. We will ensure that a response is provided.

Richard Dennis: The investment will not be PFI, as that would score as resource.

The Convener: I want to return to the £85 million transfer from Scottish Water to the Health Department. Is the transfer and pay back consistent with what we were told last week about Scottish Water's right to full end-year flexibility within the current period?

Tavish Scott: The convener will be familiar with the fact that the £85 million is one of the normal allocations and redistributions that take place. The money will be paid back to Scottish Water next year, so there will be no longer-term impact on Scottish Water's programme. My understanding is that—as the committee discussed at great length last week—the reallocation was caused by Scottish Water's need to phase that programme to enable it to get the job done.

The Convener: Will the minister clarify that the pay back will not necessarily come from the health budget? The minister said a couple of minutes ago that, for next year's budget and for budgets in future years, it will be up to ministers to make an appropriate adjudication between different competing needs. Will the fact that the money has been lent to the Health Department mean that the health budget will necessarily be reduced next year, or will the issue be taken into account in setting all budgets?

Tavish Scott: It is not a question of the health budget being reduced. As I hope I explained, a reprofiling of the expenditure under the health budget is being sought because of particular demands now that were forecast in November last year. The prudent course of action that is being sought is to bring forward the health expenditure that would have been available next year in order to help manage particular pressures at this time. Having been able to manage those pressures thanks to this additional finance, the health budget will obviously not have the same call on that money later in the year, because it will already have spent it. The budget revision allows a profiling of health expenditure that is helpful to the health budget against those pressures. Our presumption is that the money would be paid back from the health budget, but it is not the case that health expenditure will be cut. I would avoid using those emotive terms.

The Convener: Will we get clarification about what kinds of health expenditure can be brought

forward in that way? I presume that such items of expenditure must of their nature be non-recurring, if the financial requirements are to be met in the way the minister has outlined.

Tavish Scott: The advice that I have received is that there were some particular pressures relating to waiting times and NHS boards. The moneys that we suggest are able to be moved will help tackle the particular problems at this time. If the suggested profile of expenditure occurs and the Health Department is permitted to bring forward that expenditure, that will help its overall balance of expenditure throughout the course of the next year. It appears that it would be helpful to make the expenditure at this time to deal with those particular pressures.

The Convener: I can understand why that would be helpful, but my question relates to issues of reprofiling and reborrowing in the health budget. Will the minister clarify whether the type of expenditure that is being brought forward is the kind of expenditure that is capable of being reprofiled? I suppose that is what I am trying to get at.

Tavish Scott: I have been given that assurance. To some degree I have to go on trust, but health colleagues have given us a clear illustration of what they will spend the money on and how that will be allocated. That justification has been put forward.

The Convener: It would be helpful to get more information from the Health Department on that.

Ms Alexander: I want to follow up on that same point. Does the £85 million come from Scottish Water's cash or borrowing capacity? Perhaps officials will be able to clarify that.

Tavish Scott: I do not know that off the top of my head.

Richard Dennis: The money comes from Scottish Water's borrowing capacity. In effect, we are talking about a transfer of departmental expenditure limit. As the committee will know better than me, what scores in DEL for Scottish Water is net borrowing.

Ms Alexander: Obviously, Scottish Water will be able to use that borrowing capacity as part of its £600 million borrowing limit. Of course, Scottish Water might incur slightly higher interest charges because interest rates are now rising, but that is obviously a movement over which the Executive cannot have any influence.

Fergus Ewing: I want to pursue the two strands of the points that the convener and Wendy Alexander have made. In essence, has Scottish Water lent the NHS a dollop of cash?

Tavish Scott: It is for the Government to decide in which departments allocations will take place. It

was for ministers to agree the choice of allocations. The health budget faced some pressures and finance ministers were asked to respond to them. One can choose whatever language one likes, but that is how the process works. I hope that, in fairness, Mr Ewing will accept that the process works in that way across all departments every year. This is not a particularly unique situation.

Fergus Ewing: Well, yes and no, minister. The big difference is that Scottish Water is funded not by the taxpayer but by borrowings and charges. Either the water rate payer is subsidising the NHS or the lenders are—

Tavish Scott: That is not true.

The Convener: I do not think that that is right.

Richard Dennis: Let me deal with that briefly. The binding control is the departmental expenditure limit. For Scottish Water, that means its limit on net borrowing.

Given that we do not allow departments to use their DEL in advance of need, let us consider what would have happened if we had not made this transfer. When we got to the end of the year, Scottish Water would not have drawn down the £85 million. Therefore, the £85 million would have formed part of the EYF that Scottish Water would have received in next year's autumn budget revision. Similarly, we would have told the Health Department to ask the boards to slow down a bit and not bring forward any work. When we got to the end of the year, the health budget would have been flat. The Health Department would then have been able to spend the £85 million next year.

In effect, we have said that we will guarantee that Scottish Water will get the same amount of money back through EYF—although it will not really be EYF, because it will not be money that was underspent—and that we will let the Health Department spend £85 million of next year's money during the current year. The only sense in which there has been a loan is in the strange currency of DEL. That is because the control by Westminster and the Scottish Parliament works only for one year. The transfer is simply a slight wheeze to get round annuality.

I probably should not have said "wheeze" on the record.

Fergus Ewing: I wish I could say that I found that answer illuminating. Mr Dennis must be one of the people who understand the Schleswig-Holstein question. His answer does not, however, detract from my point that Scottish Water is not funded by expenditure under the Scottish block but by borrowings and charges.

I want to move on to ask about the pressure the minister said had come from his Health

Department colleagues. Some £85 million extra is to be allocated to meet pressures on two fronts: tackling waiting times and pressures on NHS boards. First, how does that £85 million break down? What specific amounts have his Health Department colleagues asked for and obtained in respect of each of those two matters?

Tavish Scott: I do not have an exact breakdown of the £85 million. If the committee is interested in that, we can provide it. I hope that members will accept that there is always a balance to be struck. If we did not accept that principle, we would need to provide very detailed information for all the adjustments in every budget revision order. However, if Mr Ewing is asking for a breakdown specifically of that £85 million, we will be happy to provide it.

Fergus Ewing: That will be helpful, as these are important matters. In particular, I am interested to know whether the proposed expenditure to tackle waiting times will be spent strictly in accordance with a proper assessment of clinical need.

11:00

Jeremy Purvis: I have a question about capital. We have touched on Scottish Water and health, but when EYF money is not, in effect, classified as EYF money but as internal transfers as a result of a separate deal, it is difficult to get to grips with why that has happened and how it is put in such revisions. Things are quite clear in the tables; however, with regard to the inquiry into Scottish Water, a different kind of transfer is involved because there seems to be an agreement among ministers that the money will be available at a later date. I would be interested to know whether such deals are typical across the Executive. Are such deals done by correspondence, for example?

Tavish Scott: The process invariably involves formal meetings. That is because—as I am sure Mr Purvis will accept—pressures emerge in some areas and slippages inevitably occur in other areas as the year progresses. There are always balancing and competing requirements—pluses and minuses, as it were. Normally, expenditure—particularly the scale of expenditure—would be subject first to correspondence and then to a ministerial meeting.

Jeremy Purvis: You have read the *Official Report* of previous committee meetings. We have discussed water with the Deputy Minister for Environment and Rural Development and you have read our exchange on the risk on the investment programme. What role do finance ministers have when it is clear that there has been quite substantial slippage in an investment programme and there are well-argued risks to an investment programme in the future? I do not think

that we have any idea of the monetary value that is being put on such risks to manage them. Are you confident that such things will not happen again?

Tavish Scott: I have two things to say in response to your questions. First, I will be interested in the committee's findings and deliberations on Scottish Water, in its inquiry.

Secondly, finance ministers seek to keep a close eye on areas in which we know there have been issues. You mention one such issue, which emerges and re-emerges. It is the job of finance ministers to monitor closely what is going on, while accepting that portfolio ministers have responsibility for overall spending in their departments. We are certainly keeping a close eye on the matter that you mention, particularly given the track record in that area.

The Convener: I am anxious that members keep close to their time limits.

Jeremy Purvis: I was going to ask a quick question about water, but at your request, convener, I will not do so. However, I have another two quick questions.

The minister might still have in front of him the bits of paper he mentioned. There is quite a large decrease in the global connections budget for Scottish Enterprise. Why does that aspect of enterprise policy not require the same level of expenditure? Am I right in saying that the figure is minus £12.5 million?

Richard Dennis: Do you have a page reference? Page 51 shows that the global connections budget is unchanged at £22 million.

Jeremy Purvis: The table on page 50 has a figure of around minus £12 million in the operating costs of global connections.

Tavish Scott: We will write to you on that matter, too. Again, a level of detail—

Jeremy Purvis: I would be surprised if the budget for global connections was greater than £12.5 million. I am trying to find out whether that budget has been scrapped.

Tavish Scott: I will not try to guess. We will provide information to you on that matter, too.

Richard Dennis: If members look across the columns, they will see that there is a remaining budget of around £87 million after the change, so that budget has certainly not been scrapped.

Jeremy Purvis: I would be grateful for more details about what has happened there. I would also be grateful for an explanation about the great piece of language that is used on the health side. A figure of £138 million is given for

"Capital to revenue transfer for non asset creating capital expenditure".

That is an artful comment.

Richard Dennis: A wide range of maintenance work on capital assets takes place, which effectively maintains those assets in their current state and does not add to their value. If, for example, the carpet in the chamber was changed every year, that would in some sense be investment in the asset, but it would not change its value. Such maintenance work scores as resource rather than capital. The exact balance in health trusts of so-called value-added maintenance and non-value-added maintenance is determined in-year. The trusts start off with a high number and transfer in-year when they know what the actual split will be.

Professor Midwinter: I have a quick observation. The issue is similar to the issue that has bedevilled the committee's discussions on water. We are talking about renewals—

Jeremy Purvis: That is exactly the point that I was going to make. It will be interesting to compare what the officials from that department said with what we have just heard. I think that we would be happy if what has been said is entirely consistent.

Professor Midwinter: I have a number of related questions.

The Convener: I will let Elaine Murray in and then I will come back to you.

Dr Murray: I am probably being stupid, but I want to understand the £85 million that will go from Scottish Water to the Health Department. That figure is borrowing consent and is in alignment with what we heard last week. However, when the money goes to the Health Department, it is no longer borrowing consent, but seems to be revenue.

Richard Dennis: That is right.

Dr Murray: So there is basically a transfer from a capital borrowing consent to revenue. How does that work?

Richard Dennis: The binding control on the Executive's budget from the Treasury is the departmental expenditure limit. Both resource and borrowing consents score equally in respect of that currency.

Dr Murray: I am not sure that I completely understand that.

Richard Dennis: If Scottish Water's borrowing was increasing and the Scottish Executive decided to fund that increase by cutting Executive staff, those staff costs would be genuine cash payments that would come through the system, but they score exactly the same as borrowing consent in DEL. Therefore, the Treasury does not mind if we spend money in one way or the other.

Dr Murray: If I did not use my mortgage, for example, I suppose that I could use the cash and give it to somebody else. The mechanism seems to be peculiar in transferring money from capital into revenue almost by sleight of hand and I feel slightly uncomfortable about that.

Tavish Scott: Richard Dennis is explaining that how the money is viewed by the Treasury and therefore how it is viewed in Government finance terms is the same. That might be curious, if I may put things in that way, but that is how the Treasury views expenditure. As Richard Dennis says, it does not mind as long as the money is within the DEL.

Jim Mather: I have a specific question about schedule 2.2 on page 44, which deals with the Enterprise, Transport and Lifelong Learning Department's budget. There is a reduction in the operating cash that is available to Caledonian MacBrayne and an increase in capital. It is strange that there is a reduction in the revenue that is available to Caledonian MacBrayne, given that its most lucrative route—the Gourock to Dunoon route—has just gone through a prolonged programme that resulted in pretty strong revenue loss and a long-term customer loss, as customers migrated to other services. Given that the revenue hit is real, existing and in the pipeline for the long term, why is Caledonian MacBrayne being asked to take such a hit in the cash that is available to it?

Richard Dennis: Are you talking about the three transfers of costs for capital and depreciation?

Jim Mather: Yes.

Richard Dennis: We have recently moved from a fully cash system to a system that covers both cash and non-cash items. When there are changes to the rules about how non-cash scores, we do not allow budgets to take those windfalls. Changes in how we score public corporations meant that the costs of capital and depreciation provision for Caledonian MacBrayne were higher than we needed, for example. We surrender such windfalls back into the centre for ministers to decide how they should be used.

When we initially moved from cash accounting to full resource accounting, programmes such as Caledonian MacBrayne's were automatically given the budget increases that they said were necessary to meet their non-cash costs. When the estimate for the non-cash costs was much higher than that scored in the accounts, that was a windfall gain, which was sent back to the centre. Some departments will have made underestimates, and we would automatically fund those from the windfalls that we have received from others. It is a question of balancing, and members will see that all the transfers have gone off to costs for capital elsewhere in the same departments.

Jim Mather: What is the procedure for identifying a windfall? Who identifies it?

Richard Dennis: When it is a question of classification change, it is automatically a windfall. That is when we have made provision within our budget for an item that we are told we no longer need to make provision for. An estimate being too high or too low will often come up when the accounts are done.

Jim Mather: Does that tend to be agreed between the Executive and, for example, Caledonian MacBrayne?

Richard Dennis: Yes.

Jim Mather: It is an agreed position.

Richard Dennis: Yes.

John Swinburne (Central Scotland) (SSCUP):

Is the minister comfortable with the revised figure in the spring budget document for the "Ending Fuel Poverty" budget, which relates to the excellent central heating programme that is theoretically in force? Is he happy that he has put enough financial weight behind the wheel to ensure that there will be fewer winter-related deaths?

Tavish Scott: I certainly agree with Mr Swinburne that the central heating policy is excellent. I am sure that it is making a substantial difference in all our areas. I hope that Mr Swinburne accepts that it is for the portfolio minister to judge how much money should be in the central heating programme budget. If she thinks that there are additional pressures or good arguments for enhancing the budget, she would choose either to make an alteration within her overall budget or to call on the centre for funds. Given the central heating scheme's success and the representations from all parties in Parliament about it, I am sure that the matter is under active consideration within the department.

John Swinburne: That is good, but you mentioned the scheme's success. In theory, the scheme is perfectly successful, but its implementation, particularly its speed, is imperfect. We have a worse record than Siberia has on winter-related deaths and we must act on that a bit more sharply. I am not satisfied that enough financial weight is being put behind the programme to implement it fully.

Tavish Scott: All I can do is to bring Mr Swinburne's comments to the attention of the portfolio minister. Mr Swinburne may be referring in particular to the performance of Eaga Partnership Ltd. I am sure that all members will have had constituency and regional issues raised with them about its performance, but we have encouraged it to do much better. I believe that the Executive is making real progress on fuel poverty

and I contrast that with what has happened in the past. The Executive takes fuel poverty very seriously indeed and is determined to deal with it. More money is being put into it than has happened in the past, including into imaginative schemes such as the central heating programme. That is a matter of public record. We should take comfort from having such an initiative in an important policy area.

The Convener: In the revised budget, the adjustment is a transfer towards the central heating programme. At my surgery yesterday, somebody told me what an excellent service they had received.

Fergus Ewing: I seek clarification of which budget line will meet the costs of relocating Scottish Natural Heritage to Inverness, assuming that ministers confirm that decision once the process of considering advice and proposals from SNH has been completed. My understanding is that the target date for moving is not until 2005, so I assume that no allowance has been made for additional costs in the year 2004-05. Assuming that the relocation goes ahead, and setting aside the disagreement between the Executive and the union about the likely net costs—whether it will be £7 million, £12 million or £22 million—I ask whether the relocation costs will be met from the “National Heritage” budget, which is described on page 7 of the 2004-05 budget document as being a total of £65 million. If not, will the relocation costs be met from another budget line?

I am raising not the substantive issue of how much the figure will be, but how it will be accounted for. I would expect some allowance to rear its head, as it were, in next year's budget document, but from which budget line will the relocation costs be drawn?

Tavish Scott: I am trying to think of the best way to express a reply to that. The formal position is that the Scottish Executive will meet the costs of relocation, which will come from the Environment and Rural Affairs Department budget. We would need to provide you with a formal response on the level of funding and how it will break down. It is certainly the case that the Executive will provide the funding to ensure that the relocation concludes successfully.

11:15

The Convener: Arthur Midwinter has two or three technical questions.

Professor Midwinter: I listened with great interest to the comments about the water transfer. I have read evidence from officials and others in the past couple of weeks that somehow contradicted my understanding of how the expenditure control works in practice. I am trying

to produce a briefing paper for the committee on the operation of EYF and capital spending in water, which is significantly different from departmental programmes because we are dealing with a public corporation.

I fully agreed with Richard Dennis's description of the capital-to-revenue transfer. It was absolutely in line with how I understand matters to happen. I thank the other Richard—Richard Wilkins—for the hours that we have spent on the phone in recent days as he has tried to get me information to clarify some of the confusion that arose as a result of—

The Convener: I push you towards a question, Arthur.

Professor Midwinter: I am pushing towards a question. The first one relates to the £85 million, which is the third major transfer from water that the committee has heard about in the past three years. From my figures, the amount is something over £400 million. Is the Deputy Minister for Finance and Public Services at all concerned about the scale of that slippage? It is roughly a quarter of the annual EYF, which is a very big amount.

Tavish Scott: If I may say so, I tried to hint at my concern about that matter in response to Mr Purvis's question. Professor Midwinter is right to illustrate the recurring nature of the situation and that is why I will be genuinely interested to see the committee's report on Scottish Water. Finance ministers will read the report with close interest. We have concerns about any area in which such issues recur.

The Convener: One of the decisions that we made last week was that I would write to the relevant minister with further questions about water, so it might be appropriate to leave questions on that issue to be asked in that way, if that would be helpful.

Professor Midwinter: It would also be helpful if a finance view could be put to us on the evidence that was received last week about the £600 million.

The Convener: I suggest that the best way to deal with the matter might be through correspondence. I want to ensure that we are addressing the point in the right way to the correct minister.

Ms Alexander: Allan Wilson gave an undertaking last week when he said:

“I am happy to give that assurance.”—[*Official Report, Finance Committee*, 3 February; c 958.]

He said that specifically in response to my question about whether he would write to us about some of the potentially contradictory evidence that

we had heard. The truth is that those matters fall within the remit of the Minister for Finance and Public Services, so the most appropriate thing would be for Tavish Scott simply to reiterate the commitment that his colleague gave that he is happy to give that assurance and to co-operate with the committee to clarify Executive actions on EYF on the matter. That clarification is essential if the committee is to draw fair and proper conclusions about what has happened. We need no more from the minister than his simply saying that he shares Allan Wilson's willingness to clarify the issue in writing and an exchange of correspondence if necessary.

Tavish Scott: I agree with Allan Wilson on that point and, indeed, on many matters. I am happy to come back to the committee on those issues.

The Convener: Let us be clear. We are going to have an exchange of correspondence with you on those matters, so that we get a finance view.

Tavish Scott: Yes. However, it would be helpful if you could write to us with precisely what you are looking for.

Ms Alexander: Indeed, and speedily given the pressing need for us to complete our report. I know that we are going to discuss at the end of the meeting whether to consider in private at our next meeting the draft report on Scottish Water. However, as there are one or two outstanding policy issues arising that the committee should consider, I suggest that, after the minister has left, the committee should take a couple of minutes to consider how it is going to tie up the loose ends, before moving on to the next item.

The Convener: I suggest that we might leave that until after we have taken evidence on the Fire Sprinklers in Residential Premises (Scotland) Bill, as our witnesses have been waiting for some time.

Ms Alexander: Fair enough.

The Convener: Are there any other questions?

Professor Midwinter: I had questions that were an attempt to get a finance view on some of the issues, but you might want to leave them until later.

Ms Alexander: Is there any reason why we should not proceed? The Executive has shown a preference for giving evidence rather than writing, so we should take it at its word. The Executive has made the call and has said that it wants to deal with these matters in evidence to the committee, rather than in writing. I would find that uncomfortable, but it is a choice that the Executive appears to have made.

Professor Midwinter: Last week, the committee was advised about the new borrowing requirement being agreed for the water industry and about the

fact that it is 100 per cent EYF. Can you confirm that that 100 per cent does not apply to the total budget, but applies only to the amount that is agreed between the water industry commissioner and the water industry—the £600 million?

Tavish Scott: Despite what Wendy Alexander said, I do not know the answer to that off the top of my head. My responsibility does not include interrelationships between the WIC and Scottish Water, which is what the committee is looking at. If you have detailed questions on the Finance and Central Services Department's take on what is going on in relation to these issues, we will do our best to answer them in writing. If you seek an oral session with us, we will be happy to help with that as well.

These are detailed questions. I have read the *Official Report* of last week's meeting and I know that you had a long run at this with the portfolio minister concerned. With the greatest respect, because of his portfolio responsibility, I believe that he is on top of the situation and knows the detail in a way that I simply do not. Nonetheless, I am happy to provide a finance perspective on the issues, although I suspect that that would be at a slightly later stage.

The Convener: Okay. The best route is to deal with this in correspondence. We will get more certain answers in that way.

Ms Alexander: With respect, officials said last week that they wanted the *Official Report* to be the way in which they told the committee how they accounted for water. I am uncomfortable if, one week, one group of officials says, "Sorry, we don't want to write. We want to do it in testimony to the committee," and the next week another group says, "Sorry, we'd prefer to write rather than talk." I do not mind which method is used, but officials should not be allowed to pick and choose from week to week. Given the fact that the preference that the Executive stated in relation to water was for oral evidence, it might be helpful if the finance officials were given the opportunity to clarify. If they do not know and do not wish to clarify, that is fine. However, the Executive has stated a preference for letting the record speak for itself rather than writing. It is not unreasonable to ask for a consistency of approach on the one topic, rather than an approach that changes from week to week.

Richard Dennis: We are not the experts and we have not gone into this in great detail. However, end-year flexibility is a system that works on DEL. I think that that is probably all that Arthur Midwinter needs to hear on that.

The Convener: One of the problems that we ran into last week was the fact that we got an oral statement that went into great detail and it was

difficult for members to take the information fully on board. Further information on these water issues is coming to us from the Executive. When we meet this afternoon, the reporters and I will begin to gather together all the information that we have and try to make sense of it. We will then bring things back to the committee next week. We will need to seek further written clarification from both the Minister for Environment and Rural Development and the Minister for Finance and Public Services at an early stage, as there are some outstanding issues that we need to clarify. I undertake to do that with the reporters. We are meeting this afternoon and will come back to the committee next week with the information that we have managed to get.

Jim Mather: Given the points that were raised last week and the need—verging almost on a craving—to have proper, clear and analytical responses on paper, I want to say on the record that that need is still unanswered.

The Convener: I think that we can deal with that point in the way that I have suggested.

Ms Alexander: Does that mean that the finance adviser will not be able to ask finance officials about factual issues that might lead to clear information for the reporters when they meet this afternoon? When will that opportunity arise again?

The Convener: To be fair, we are dealing with the draft Budget (Scotland) Act 2003 Amendment Order 2004, which is why the minister is with us today. It is fair that we should deal with issues that relate specifically to the order in front of us; however, that is no impediment to the committee's pursuing this minister and other ministers on factual information on any issue. Obviously, Scottish Water would be one such issue.

Tavish Scott: If it would help the committee, Richard Dennis and Richard Wilkins would be very happy to meet Arthur Midwinter directly after this meeting.

The Convener: That would be helpful.

I think that our debate on this matter has concluded, so I will put the question.

Motion agreed to.

That the Finance Committee recommends that the draft Budget (Scotland) Act 2003 Amendment Order 2004 be approved.

The Convener: We are now required to report to Parliament. Such reports are normally very brief and we are about to go into a week's recess, so I propose that we seek to agree the text of our report by e-mail correspondence. Are members content with that proposal?

Members indicated agreement.

The Convener: I thank the minister for his attendance this morning.

Fire Sprinklers in Residential Premises (Scotland) Bill: Financial Memorandum

11:29

The Convener: Before we consider the next item, I ask everyone to stand for a minute's silence to remember those who died in the terrible fire at Rosepark care home in Uddingston.

11:30

The Convener: Thank you.

The Fire Sprinklers in Residential Premises (Scotland) Bill is a member's bill, which Michael Matheson introduced on 17 November 2003. To help us in our consideration of the bill, we have David Bookbinder, who is a policy and practice coordinator from the Scottish Federation of Housing Associations; Alister McDonald, who is the deputy chief executive of Bield Housing Association; and John Blackwood, who is the director of the Scottish Association of Landlords. I welcome you all to the meeting. Do the witnesses wish to make an opening statement?

David Bookbinder (Scottish Federation of Housing Associations): The Scottish Federation of Housing Associations believes that tenants' safety in any housing is paramount. We have no doubt that the bill is well intentioned. We welcome last Wednesday's ministerial statement, which referred to continuing research into the effectiveness of a range of fire prevention methods, including sprinklers. Legislating now for the introduction of a single measure would be premature.

It is difficult to see the bill's justification for covering houses in multiple occupation and sheltered housing, which are different from care homes or large nursing homes. It is important to point out that the bill would not cover nursing homes such as Rosepark.

Since 2000, HMOs have been subject to mandatory licensing, which imposes stringent fire safety standards. Licensed HMOs are much safer than most ordinary houses in the community, because of the standards that they must meet. On the other hand, sheltered housing is built so that each self-contained flat is an individual fire cell, in accordance with building regulations. That ensures that fire is unlikely to spread.

The financial memorandum greatly underestimates the cost of installing sprinklers and the cost of the bill's affecting every HMO in Scotland. It might not be clear from the explanatory notes that every existing HMO would

be affected as soon as it had a change of occupancy. The costs would have to come from the public purse or from tenants' rents. Our concerns are about costs and about the effectiveness of sprinklers in the types of housing that the bill covers.

John Blackwood (Scottish Association of Landlords): The Scottish Association of Landlords echoes many of the comments that have been made, so I will not labour the point. We have policy issues with the bill. Fire prevention and tenant safety are paramount, but we are concerned about a blanket licensing condition for all HMOs when the current system is adequate. Our objections are based largely on financial aspects and relate to the cost that tenants might be required to pay in the long run through rents. That may be unnecessary at this stage.

The Convener: I remind committee members that it is not our job to deal with the bill in principle—that is the Communities Committee's job. Our responsibility is to ensure that the full financial implications, should the bill be approved as a policy approach, are properly quantified and identified. Our responsibility in relation to a member's bill is no different from that in relation to an Executive bill.

Dr Murray: The Scottish Federation of Housing Associations has expressed concerns about the definition of sheltered housing. The definition may have an impact on the financial memorandum because, if it is loose, many more people could be affected. The definition in section 15 says:

"'sheltered housing' means any house or group of houses which, having regard to design, size and other features, is particularly suitable for occupation by people who are elderly, disabled or infirm or in some other way vulnerable".

The definition also refers to facilities, but it contains nothing about individual fire cells. The other thing that struck me about the definition was that it could, in some interpretations, surely cover nursing homes and residential homes, in that they, too, would be particularly suitable for occupation by a particular group of people and would have facilities that were substantially different from those of ordinary houses. Do you think that the interpretation might be so wide that it could bring in a lot of providers other than those that it intends to bring in?

Alister McDonald (Bield Housing Association): Our difficulty with the definition of sheltered housing is that the provision of fire sprinklers relates to the building regulations, but the regulations do not include a definition of sheltered housing. I am sorry to get into the technicalities, which are not really financial, but sheltered housing, when it is built, is classified as a dwelling, whereas care homes are classified in a

different category as residential accommodation, along with student accommodation and various other types of accommodation.

The Scottish Executive's statistics show that there are something like 35,000 sheltered housing units throughout Scotland. An enormous range of types of accommodation is classified as sheltered housing, from older properties that have been adapted by having an alarm call system installed, to purpose-built modern facilities that have more in common with a care home in terms of design of facilities, except that each dwelling has to be built as a self-contained fire cell. All that is fairly technical, but the point is that the definition of sheltered housing is not in the building regulations.

Dr Murray: Do you think that the fact that the definitions in the bill and in the building regulations do not concur has financial implications?

Alister McDonald: It is partly because of the lack of clarity in what constitutes sheltered housing that we are not entirely clear about the financial implications.

Mr Brocklebank: According to the evidence on houses in multiple occupation and sheltered housing that the various organisations have submitted, you are saying that the figures in the financial estimates are nothing like enough. In fact, you are saying that in some cases it will be twice as expensive to implement the measures. If I am right in my reading of the submission from the Scottish Association of Landlords, the real costs could be something like seven or eight times as much as the figures that have been presented to us. That seems a massive increase. Perhaps you could explain why, in your view, implementing the proposals will cost that much more than the financial memorandum indicates.

John Blackwood: We took evidence from two members of the Fire Sprinkler Association on typical properties, specifically in the Edinburgh area. We found that the costs did not relate just to the installation and maintenance of the sprinkler systems; there would be additional costs, depending on the local area. For instance, in Edinburgh we looked at one three-bedroom property, which is at the lower end of the HMO scale. It was not a new build, but a tenement property. We found that we would not be able to install a fire sprinkler system that would be directed from the mains simply because—I gather that this is the case in a lot of cities in Scotland—the water pressure is not sufficient in certain areas.

The way around that is to install a pump at the mains, at an additional cost. However, I believe that Scottish Water objects to people doing that, because it has a detrimental effect on neighbouring properties. The other alternative is to

install a separate water tank within the property, which would have to be able to hold 800 litres of water. I am not technical at all, but I believe that that is about four times the size of a normal cold-water tank. There is a cost in housing such a tank, as well as in installing and maintaining it.

Another solution, which the bill does not cover, unfortunately, is to introduce mist sprinkler systems, which we believe the Fire Sprinkler Association approves of and which are already used in some properties in Edinburgh. The City of Edinburgh Council is happy to accept those systems, but they would not be covered by the bill, so people who already have such a system in place—which would have been approved for HMO licensing purposes—would have to consider an alternative system.

The figure of £3,500 was based on that one property and did not include installing an additional tank. However, that was the minimum cost that was quoted. Basically, both people said that we were talking about at least £3,500 for a typical tenement flat.

We were also made aware of the additional problems. I understand that the majority of HMOs have higher occupancy, with perhaps four, five or six bedrooms—that is where the quote of between £5,000 and £7,000 came in. There are additional costs over and above that, which we can only estimate at this stage.

Mr Brocklebank: Let us take your figure of £7,000 for an HMO in, say, Edinburgh, once all the plasterwork is fixed and all the rest of it. Presumably, that figure applies to properties that house students and people who move on from year to year—the tenancy changes perhaps every year. Those people would be forced to incur the expenditure at the end of the first year of a lease. Who would pick up the cost, other than the students or the lessees? Is there any way in which the landlords can be subsidised?

John Blackwood: There is nothing that we are aware of, unless some facility were made available for that purpose. The landlord would ultimately have to pick up the bill. It would be difficult to recoup that cost from the tenants within a short period of time. As you can appreciate, there is only so much that one can charge for rent.

Kate Maclean (Dundee West) (Lab): Paragraph 73 of the financial memorandum refers to a £35 annual maintenance charge. The Scottish Federation of Housing Associations mentioned a maintenance charge, but did not say what it expects the cost to be, and the Scottish Association of Landlords does not mention the maintenance cost at all. Maintenance is important—for example, we all know that if smoke alarms are not maintained properly, it is a waste of

time having them. What do you estimate the annual cost of maintenance to be? I would have thought that £35 a year was a small amount of money for someone to go into a house and check a system.

John Blackwood: I do not have the costs before me. I have tried to get a figure for maintenance, because we, too, feel that £35 would not cover it. The two members of the Fire Sprinkler Association whom we approached said that the cost is an unknown quantity, because it depends on the number of sprinkler heads within a property, the size of the property and so on. There are so many variables that they were unable to give us an exact figure. We hope to have a specific cost, based on various different properties, but I do not have the figures with me to give to you.

Kate Maclean: I presume that the work will be ordered by the landlord and billed as part of the rent—it will not be billed separately—so there will be no chance for tenants to opt out of paying if there is a sprinkler system. Is that how most landlords operate in relation to communal costs or annual maintenance?

John Blackwood: Yes. The cost would have to be paid for as part of the regular maintenance costs of the property, which the landlord would incur in the first instance.

Kate Maclean: On the costs that Ted Brocklebank questioned you about, do you have any idea about the percentage increase in rent that would be required to cover the cost of installing sprinkler systems? I presume that the increase would not just be a one-off charge to cover the capital cost of installing systems, with a decrease in rent in following years because the capital cost was not being incurred. There would be a percentage increase that would cover the cost of the work over time. Do you have any idea what that cost would be?

11:45

John Blackwood: As you say, the cost would be covered over time, not just over a year. That would largely depend on the property and its occupancy. There is a huge difference between the rent of a three-bedroom HMO and that of a six or seven-bedroom HMO.

There is an overriding concern about the huge potential boost in rents through existing HMO licensing. I know that many landlords have not upped rents simply because the market dictates that they will not be able to increase rents. Therefore, they have taken the costs on board with a view to recouping them over a period of years. We are concerned about further costs over and above those that landlords incurred in carrying

out all the alterations for an HMO licence in the first place. We are also concerned that on-going, year-by-year licensing fees are not taken into account.

I think that there are serious concerns about whether the money could be recouped, although I can speak only anecdotally. We are worried that many landlords who have HMO licences and do everything that they should do to maintain their properties and to keep them fit for occupancy will leave the market. Our overriding concern relates to what that will do to the supply of properties in areas of Scotland, but, unfortunately, we have no evidence relating to that concern at this stage.

Fergus Ewing: Mr Matheson should be commended for doing a great deal of work on the bill and for producing a policy memorandum that not only provides a great deal of factual detail, but gives us statistical evidence of the impact of the installation of water sprinkler systems in other countries—the memorandum mentions Scottsdale in Arizona and Vancouver.

Mr Matheson has also directed our attention to a parliamentary answer given by Mr Raynsford, which states:

“Fire and Rescue Services in the UK attended 22 fires in dwellings equipped with water sprinklers, there were no deaths reported. In the same period, there were 64,613 fires in dwellings not equipped with water sprinklers, and 443 deaths.”—[*Official Report, House of Commons*, 2 February 2004; Vol 417, c 740W.]

The financial memorandum deals with costs to public services, which are perhaps not strictly of interest to members of your organisations. Each death costs around £1 million from the public purse. By any account, I am sure that we would all agree that Mr Matheson has produced a piece of work that needs to be seriously considered.

My first question is whether the SFHA and Bield Housing Association responded to the consultation that was initiated in September 2001.

David Bookbinder: I am sorry, but which consultation do you mean?

Fergus Ewing: I am talking about the consultation process that Mr Matheson initiated in September 2001. Did the SFHA and Bield Housing Association make submissions to that consultation?

Alister McDonald: I understand that the SFHA responded and that Bield Housing Association contributed to that response. We did not make a separate, independent response. Of course, the proposal then covered all dwellings and not only sheltered housing and HMOs.

David Bookbinder: That is an important distinction. We do not want to say that sprinklers per se are not a good idea. However, the bill

relates specifically to only two types of housing, which we believe are among the safest dwellings in Scotland as a result of building regulations and the mandatory licensing of HMOs. It is not our place to comment on the value of sprinklers in other types of buildings, such as in open shopping centres, or on sprinklers themselves. However, we do not believe that the policy memorandum includes any information that justifies saying that HMOs and sheltered housing are more at risk than other types of housing.

Fergus Ewing: In paragraphs 105 to 111 of the financial memorandum, Mr Matheson has identified potential savings if the bill were enacted. I do not think that you have commented on that part of the memorandum. Would you care to do so now?

David Bookbinder: Yes. That part of the memorandum, like the rest of it, does not make specific reference to figures on sheltered housing or HMOs. Those are general fire figures. The bill relates to only two types of housing.

Fergus Ewing: Do you accept that if the bill was implemented, insurance premiums on properties would reduce?

David Bookbinder: No. Our members have been told that insurance premiums would increase because of the potential for water damage, both in false alarms and real situations.

Fergus Ewing: I thought that you might say that. Mr Matheson might argue that there is a misunderstanding as to what type of sprinkler system he is proposing and in what circumstances that system would be activated. I am no expert in these matters, having studied them only during the weekend, but as I understand it Mr Matheson's argument is that the SFHA misunderstands how sprinklers operate. The FSA has clarified that sprinklers operate when the ambient temperature reaches 68°C and that smoke needs hot gases to be transported around a building. Those gases would be considerably hotter than 68°C so it is unlikely that there would be enough smoke produced to pose a threat to life without the fire generating enough heat to operate the sprinkler system.

I do not want to stray into substantive issues, but it is obvious that it is your view of those substantive issues that colours and dictates your approach to the financial implications, so it is relevant to talk about them from that point of view. Do you accept the FSA's criticism that your contribution misunderstands how sprinklers operate?

Alister McDonald: No. Since the bill was published, I have come to understand a lot better than I did some weeks ago how sprinkler systems operate. I therefore appreciate the difference

between a residential sprinkler system and a commercial system that might operate in such places as shopping centres. They operate individually. I appreciate that each sprinkler head is operated individually by heat.

As the representative of an individual association, I cannot comment on the SFHA. We consulted our insurance brokers on the issue of whether insurance premiums would be reduced if we installed sprinkler systems. At this stage, the brokers were non-committal. They did not say whether premiums would reduce or go up; they said that they would have to look into it. That is just another area that we are not clear about.

Fergus Ewing: I have never met an insurance broker who anticipated a reduction in insurance premiums. Perhaps I have led a sheltered life.

The most fundamental difference in the financial implications has been raised by Ted Brocklebank. There is a striking disparity between your figures for the cost of installing a sprinkler system and Mr Matheson's estimate of a £1,500 average cost. Mr Matheson was careful to point out that the precise cost will be different for each property. He is not arguing that £1,500 is a fixed cost by any means; quite the contrary. He has looked into the costs in some detail.

Mr Blackwood's argument seems to be based on one house in Edinburgh and on the approach taken by Scottish Water to the particular consequences for that organisation. What other information does each witness have that supports their evidence that the average cost is likely to be rather more? The figures of £3,500 and then £5,000 to £7,000 have been mentioned. What data do you rely on and have you assessed before giving us your conclusions?

David Bookbinder: At the moment we do not have reliable data on costs from across Scotland and that is why we believe that further research is needed. The evidence is very much ad hoc and hearsay that we are picking up from different sources. For example, one of our member housing associations in consultation this week with one fire authority was given an average cost for the type of HMOs in that area as between £5,000 and £10,000; I admit that that was just one fire authority. That is another piece of ad hoc evidence that builds a picture. We cannot put our finger on an exact average cost in Scotland, but a worrying picture is being built up.

The Convener: We will have a final question from Fergus Ewing.

Fergus Ewing: You have stated that there is a lack of data, but you have given us an average cost. The Scottish Association of Landlords has stated that the average cost will be in the region of £5,000 to £7,000 per property.

I am sorry that Mr Blackwood perhaps did not get an opportunity to answer that question. I want to make the general point that it seems to me that many aspects of the bill require careful consideration, not least substantive issues that we cannot consider today, such as those raised by Mr James Proctor in an interesting letter in *The Herald* this morning. Would you, as representatives of your organisation, be willing to meet Mr Matheson in order to take forward the discussions? It seems that, as yet, there has not been a meeting of minds. It would be helpful for all of us in the Parliament to be sure that we are acting on the best possible information and that we have the benefit of your full contribution to the consultation process.

John Blackwood: Certainly, we would be delighted to do that. It would have been nice to have been approached earlier, but we would be delighted to do that.

The figure of £5,000 to £7,000 is based on actual costs for systems that have already been installed, albeit in Edinburgh. Those are actual costs for existing properties; albeit only a handful that have been done within the City of Edinburgh.

Mr Brian Monteith (Mid Scotland and Fife) (Con): I thank the convener for being so gracious as to let me take part in the committee meeting.

Fergus Ewing made a very good point on the issue of average costs. In the information that they have gathered from their members, have the witnesses been able to ascertain any individual costs that either match or are less than the average cost of £1,500?

David Bookbinder: We have certainly not had sight or sound of information that would put the cost lower than that.

John Blackwood: I approached members of the Fire Sprinkler Association about the matter. I said that it had come out that the cost might be £1,500 and asked whether they thought that that was within the ballpark figure for any property. One of the members said that he would not quote for less than £3,500; that was an FSA member who would be installing sprinklers. We are working on that basis.

Jim Mather: I am interested in the process by which you got the figures that are on the table. Those were quotations. Did you manage to simulate any feel of a competitive tender?

John Blackwood: I must admit that, because the Fire Sprinkler Association has been involved in the process I wanted to use its members and as the properties in question relate to FSA members within the Edinburgh area I was trying to get local people to give quotes. The two nearest people that I could find operate in Fife; I could not find

anybody in Edinburgh who would install the sprinkler systems. The quote of between £5,000 and £7,000 was based on a property in Edinburgh that already has a sprinkler system that was installed by a company in Glasgow. Unfortunately, I have not yet had time to approach the company and get more specific costs. That information was from the association's own members. They quoted anecdotally having been given property addresses, the occupancy of the property and whether it was located on the ground or first floor or whatever. They were able to give us those figures.

Jim Mather: Was that process conducted verbally or was it done in writing. Did you put a simulated request for tender to them and get a formal tender back?

John Blackwood: It was done verbally because, unfortunately, I have only had the last week to try to work on the bill. In due course we will be able—I hope in time for the Communities Committee—to have the exact costs and exact estimates in writing.

Jim Mather: Do you feel that in that climate you could get a better price and have the companies sharpen their pencil?

John Blackwood: I certainly hope so. It would be nice to get a specific cost based on a specific property. That would be useful.

Jim Mather: Beyond that, have you talked to any surveyors about the potential increase in value in a property with sprinklers installed?

John Blackwood: Once again, having spoken to a couple of people over the last week, they did not feel that that would have any bearing on the market value of a property.

Jim Mather: Was that also done verbally?

John Blackwood: Yes.

Jeremy Purvis: Mr Blackwood's written submission states:

"It is the opinion of our Association, that the existing Licensing structure allows each Local Authority to determine, under their own licensing regime, where and where not Fire Sprinkler Systems are required and therefore feels it unnecessary to impose a blanket licensing condition".

Do you know of any local authorities that have imposed this condition on HMOs under their own aegis?

12:00

John Blackwood: That has certainly happened in Edinburgh. I am sorry to dwell so much on Edinburgh, but as it is a built-up area we have found it useful to draw on some contacts locally and within the local authority.

The City of Edinburgh Council has said that, as a result of its own licensing conditions, it already requires fire sprinklers to be installed in some HMO properties. We are not against such an approach; indeed, we see the benefit of sprinkler systems in some—though not all—HMO properties. I believe that the requirement for fire sprinkler systems to be installed applies to all double upper flats, which have more than one storey. As a result, the council has had some experience with local contractors that have installed some of the systems. That bears somewhat on the costs that we have set out.

Jeremy Purvis: Have you been using such examples with regard to local authorities in order to estimate costs?

John Blackwood: Yes.

Jeremy Purvis: I presume that you oppose a blanket requirement on HMOs to have fire sprinkler systems installed. However, some local authorities and landlords that have installed the systems have said that the move has been—there is no other word for it—a success.

The Convener: As local authority representatives will be giving evidence in a couple of weeks' time, Jeremy, you will have the chance to deal with that matter then.

John Blackwood: I am sure that the local authorities will bear out your comments. However, it is important to point out that we are not against such systems per se. They have their place in certain properties that might pose a higher fire risk than other HMO properties, simply because of their occupancy, layout and so on.

However, many HMOs are in ground-floor properties that have front and back doors, fire doors, clear fire access and an existing smoke or fire detector system. The local authority takes the view that that is perfectly adequate and that no additional conditions are necessary. Because each local authority—I am taking Edinburgh as an example—checks every property and does an individual fire risk assessment on it, it is able to determine where such measures are or are not appropriate. Like us, local authorities are saying that surely that approach is adequate and that the current HMO licensing system already gives them that power. We do not need a blanket approach.

Jeremy Purvis: I want to ask the housing associations—and Bield Housing Association in particular—whether any of its new build houses include sprinkler or mist systems.

Alister McDonald: No, but we include a full fire alarm system. Each house is protected as a fire cell, and contains the usual precautions of fire doors, fire closers and so on. Any building with corridor access is designed and built to comply

with the current building regulations and in consultation with the fire officer. However, as fire sprinklers are not currently a requirement, we do not install them.

Mr Brocklebank: In response to an earlier question, Mr Blackwood said that he thought it likely that if the legislation applied to HMOs a number of people would no longer be interested in staying in the letting market. Will he quantify that in relation to the licensing arrangements that were previously imposed on HMOs? After all, fairly strict regulations have been introduced over the past two or three years. At that time, was there any evidence of properties going out of the letting market?

John Blackwood: Unfortunately, we cannot in all fairness say that such evidence exists. We can cite only anecdotal evidence from our own members, who tell us whether they are continuing to work in the field. When HMO licensing was introduced, we had huge reservations—not, as many people thought, about the policy aspects, but about the threshold aspects, the fact that it was brought in through secondary legislation and so on. We thought that many landlords would vote with their feet and say that it was no longer the same kind of profitable business that they would rather put their money into.

HMO licensing has been in place for only a short time but, although the evidence is anecdotal at this stage, our members are now starting to see people leave the HMO sector and sell up and move on. However, we do not know whether those people have been replaced, as it could well be the case that other landlords have bought up the property. We are still working on the issue to find further evidence.

I have a greater concern about the bill that is before us because it will compound the situation by making things even more difficult for some landlords. Landlords might see the bill as the straw that breaks the camel's back. That is a slight concern, although I should say that that is only anecdotal at this stage.

Kate Maclean: I am in favour of having sprinkler systems in all types of accommodation, so I believe that the bill does not go far enough. During term time, the constituency that I represent has 10 per cent of the student population. Many of them live in halls of residence as well as in houses in multiple occupation, so I would like to see the bill go further. However, there seems to be a discrepancy about the costs of the bill. Could the witnesses clarify that in writing?

Perhaps the convener could also ask Michael Matheson to clarify the actual costs. There is a huge discrepancy between the costs that are suggested in the submissions that we have

received and those that are given in the financial memorandum. If we have the opportunity, we could also take evidence from Michael Matheson on that.

I realise that, given the short timescale, it may not have been possible for the witnesses to put all the information together, but it would be useful for the committee if we could get something in writing about that cost discrepancy before we make a decision on the bill.

John Blackwood: I would be happy to provide that once we have the information.

David Bookbinder: Likewise, I would be happy to provide information not only on installation costs but on the number of buildings that will be affected. For instance, the financial memorandum currently says that the bill would impose no costs on registered social landlords of HMOs. That is an astonishing statement, given that we reckon that the cost for RSLs of HMOs will run into millions of pounds.

Kate Maclean: Could we possibly have information on annual maintenance costs as well? Also, the Scottish Association of Landlords' submission points out that the cost in the financial memorandum is based on a sprinkler system whose pipes are exposed rather than hidden. Obviously, quality of accommodation is important as well as safety. Could we have information on how much it would cost to install an acceptable system that is operational and that would not look hideous in the kind of accommodation that we expect people to live in?

John Blackwood: Let me add that, if we have the opportunity to speak to Mr Matheson, we will suggest that mist sprinklers should be included in the bill. Mist sprinkler systems seem to be much easier to install. The evidence that we have received so far is that they cost more or less the same as other systems. However, I imagine that mist sprinklers require fewer pipes and do not require the hassle of being connected to the mains. It might be useful to have information on that as well.

The Convener: It will be useful to get that further information in writing. Obviously, that invitation applies to all three witnesses. We will take evidence from Michael Matheson and officials from the non-Executive bills unit in a fortnight's time. I may have misled the committee by saying that we would take oral evidence on the bill from the Convention of Scottish Local Authorities. In fact, we will receive written evidence from COSLA.

I thank the witnesses for coming along today and for the information that they have given us.

Item in Private

12:09

The Convener: Before we dealt with the previous agenda item, there was an expression of interest in talking generally about some of the issues to do with Scottish Water. If we bring forward agenda item 7, that will give us a peg on which to hang that discussion. We can then deal with the issue under that heading. I think that we are all agreed on that.

I think that Wendy Alexander wanted to comment.

Ms Alexander: Can the clerks update us on what they have done following last week's meeting? The clerks were to write to the Executive on a number of issues that arose, so it would be helpful to find out where we are with that. What issues are outstanding with the Executive and what correspondence has been entered into with the water industry commissioner for Scotland, Scottish Water and the Scottish Executive?

The Convener: To clarify, we wrote to the water industry commissioner some time ago and we are awaiting a response to the specific issues that we raised. We recently received a letter from the Executive. Our adviser has been considering some of the issues that arose from last week's evidence. I intended to have a discussion this afternoon with the two reporters to assimilate all the information and to try to get it into strands from which we could generate questions for the Executive. Some of the questions that we want to ask are relatively clear and arise from the evidence that we have taken. I want to be sure, in conjunction with the reporters, that we have identified the correct issues.

Ms Alexander: What have we received from the Executive? The clerks have chosen to circulate some things. For example, the officials who appeared last week asked that their full statement be circulated, even though they did not read it all out. We learned subsequently that only some of the statement was read out and the full statement has been circulated. Has anything else come in from the Executive since last week?

The Convener: Yes. We received a letter from the Executive late yesterday afternoon, which we will circulate to members, if they so wish. I hoped to discuss the letter with the reporters this afternoon.

Ms Alexander: Issues were raised last week on which we said that we would write to the Executive, and it would be unfortunate if the committee did not get the chance to pass its view on what we should write to the Executive on the

issues that have arisen during the past three weeks. From looking at the *Official Report* of last week's meeting—this is an issue for the clerks rather than for us—it seems to me that four issues are outstanding on which we are committed to correspondence. I want to ensure that we are at one about what those issues are.

I am happy to go through my four issues, but the risk is that I might ask us to write to the Executive about something on which the Executive has already written to us. Perhaps the clerks will give us an indication of the terrain that the correspondence from the Executive covers.

Susan Duffy (Clerk): We received the letter late yesterday afternoon. It deals with the issue of end-year flexibility, but I cannot remember off the top of my head what the other couple of issues are. However, as the convener said, if members and the convener are agreeable, the letter can certainly be circulated.

The Convener: Would it be helpful if we circulated all the information to members?

Ms Alexander: I think so.

I will try to clarify the four outstanding matters. Was the letter that we wrote to the water industry commissioner circulated to members?

Susan Duffy: I think that it was, but I will check. If memory serves me correctly, the letter was written at the beginning of January.

The Convener: I think that it was circulated to all members.

Ms Alexander: A second issue has arisen with the water industry commissioner since then; that is the issue that Fergus Ewing raised last week. It would be helpful to write to the water industry commissioner again to say that we have not yet received a response to our original letter and to raise that additional issue, which was whether the financial ratios were chosen with reference to the performance of water companies in the rest of the UK. That would probably close down that issue, which I am as keen as anybody to do. That is the outstanding business with the water industry commissioner.

Last week, a number of members expressed the desire to have a reconciliation in writing of the issues that the Cuthberts had raised. The Executive said that it was better to turn up and give evidence, but, as we discovered, the officials did not get to read out all their evidence, which vindicates the point that written evidence sometimes has merit. We should write to the Deputy Minister for Environment and Rural Development to say that we found it helpful that he gave a number of references to the importance of clarification in writing and that we hope that he will look sympathetically at providing a written

reconciliation. Of course, that does not prejudice what the reconciliation might say. Given the confusion, a written reconciliation would improve transparency.

The next point that I want to raise is that I have looked back at some of our exchanges with the policy officials last week on the status of the £188 million and the £148 million. It is important that the record is accurate. Irrespective of what is in the letter that we have received, we should write to officials or the minister asking whether they think that the relevant sections in the *Official Report* are factually accurate or whether they want to revise the figures. If they want to revise the figures, that is fine; but it is important that the *Official Report* is not inaccurate on this matter. The figures that we have seem contradictory at the moment.

12:15

The Convener: There was some contradiction, yes.

Ms Alexander: The integrity of the *Official Report* is important; we use it to hold ministers accountable. On this delicate matter, about which the Executive has been so adamant that it would not put things in writing, let us ensure that the *Official Report*—albeit it is a record of oral evidence—is accurate. If it needs to be adjusted, so be it.

Those were the principal issues that I wanted to raise. It would be helpful if the committee's adviser could clarify for us what he thinks are the substantive outstanding issues. That might perhaps generate a fourth letter. Because this is to do with factual accuracy, we should put a time limit on it. That would let the committee deal with the issue and put it to bed within a reasonable timescale. Perhaps when the clerks draft the letters they can include appropriate deadlines for the resolution of these matters. However, as I say, I am aware that the expert adviser has other substantive issues.

Professor Midwinter: My view on the third issue that Wendy Alexander raised is that the answers that we have received are contradictory. If the figures are reported accurately in the *Official Report*, there is a contradiction. That matter is down on my agenda for discussion this afternoon with the two reporters.

I have had a discussion with Richard Dennis and Richard Wilkins and, as a result, I need time to think before drafting something for the committee.

Ms Alexander: There are two important issues. The first is the factual accuracy of the *Official Report*. We should write to the minister, including the extracts of the *Official Report*, to say, "Please let us know whether you are comfortable that the extracts are accurate. If not, please change them."

The second issue is the treatment of EYF. No doubt the reporters and the adviser will decide how best to pursue that.

Professor Midwinter: There are a number of contradictions in the record from last week.

Ms Alexander: It is important that we write to ask whether the extracts are accurate. It will be up to the minister to choose which information is accurate. The second issue is what we, as a committee, might want to do thereafter.

Jim Mather: I am largely content with that suggestion. I am looking forward to the meeting this afternoon so that we can make some progress.

Fergus Ewing: I agree with Wendy Alexander. We should write, and get written replies. We are talking about fairly complex matters. Unless those matters are pinned down in writing, I do not think that we can do our job properly—we must come up with a worthwhile and solid report.

Because of the corpus of work involved in the various topics that Wendy Alexander has described—and in a few more that I will come on to—I doubt whether the WIC, the Scottish Executive or Scottish Water will be able to reply in time for our next meeting. By the time that they receive our letters, we will be into our recess. Various people—Mr Millican, Mr Sutherland and the civil servants—may, like others, be taking holidays. It is unlikely that we will receive replies by our next meeting. I hope that members will agree that we should rethink when we consider our report. That is not in any way a party-political point. It is common sense.

The Convener: The next meeting is not for a fortnight.

Fergus Ewing: I do not think that a fortnight is enough. The recess week intervenes and, as well as sending the letters, we have to receive the replies. I propose that we postpone consideration of our report until we have those replies. Otherwise we will find, in a fortnight, that we do not have all the information that we need.

I want to discuss supplementary material that I would like us to receive, but would you like to pin down this point first, convener?

The Convener: We should establish first all the issues that we wish to address; we will deal with the procedural matter at the end.

Fergus Ewing: Fair enough.

I think that we need the Scottish Executive to address a number of points. First, we need a specific reconciliation of the Cuthberts' analysis. So far, we have had only an assertion that that analysis is wrong, rather than a point-by-point rebuttal. Instead, we heard an oral presentation of

a statement that had clearly been prepared. I think that we should have had notice of that; we did not.

Secondly, on the issues that I raised concerning the level of borrowings that is permitted, the level of borrowings that is prudent and the golden rule, I cast doubt last week on oral evidence that we received from Mr Sutherland on the factual issue of how much borrowing there has been by English water companies. Information that was provided by the Cuthberts and information from the statistics that were published by the Office of Water Services cast some doubt over whether Mr Sutherland's information was correct. The witnesses from the Scottish Executive—the civil servants—were not able to answer the point last week. I think that they, as well as Mr Sutherland, should answer that point.

The third point relates to the EYF, or the underspend. As well as responding to the specific figures and issues that Wendy Alexander highlighted, I feel that the Executive should be asking whether the use of EYF is now endemic—judging from the figures that we heard today—given the various substantive problems of planning permission, environmental constraints and so on, which were described to us last week. I think that we are facing an endemic underspend, which I think will go on year after year. We should face the matter head on. I would be interested in the Executive's response on that.

We need to hear the WIC's response to the Cuthberts' analysis. The commissioner's role involves giving advice on the level of borrowings that is required. I think it only reasonable that he gives a detailed response to the Cuthberts' analysis, given his statutory duties to look after the interests of customers. If the Cuthberts' criticism is correct, customers could have been short changed, or they could have benefited from more investment. Because of that statutory obligation on the part of Mr Sutherland, it is unsatisfactory for him to argue that that question over borrowings is not an issue for him. He, too, should reply to that question and should explain the figures that he gave us, which appear to be flawed.

I would like Scottish Water to respond to the request for a breakdown of how its capital expenditure has been allocated in outturn. There have been substantial underspends in recent years, largely because of projects that were supposed to have gone ahead in year one being postponed to year two, and also because of the process being implemented in spades. Such a breakdown has already been requested and alluded to, although perhaps not in as much detail as has been the case for some other weighty matters: we need to see a breakdown and a spreadsheet, showing where the money has gone in outturn. We also need to see—if possible—an

estimate of where the money is going in the future. That information should be available, given the £1.8 billion of projected investment through Scottish Water Solutions. There will be a lot of data on the matter.

We need to grasp the nettle and see the actual projects that have been invested in, those that have been delayed and those that are in the pipeline. Only Scottish Water can provide us with that information. Once we get down to that level of detail, we will begin to get to the heart of what is going wrong in the water industry.

Dr Murray: Although I saw the letter to the water industry commissioner, I cannot recall its contents in detail. Margaret Cuthbert made reference to the commissioner's evidence and, although I do not have the *Official Report* with me, it seemed to indicate that the water industry commissioner had borrowed as much as he was able to. We need to get the commissioner to clarify that suggestion.

The Convener: One of the issues was that much of the commissioner's evidence suggested that he was arguing on the basis of prudence, but there were a couple of points—

Dr Murray: As I said, I do not have the *Official Report* with me, but a paragraph that Jim or Margaret Cuthbert read out suggested that the commissioner thought that he had borrowed as much as he was able to.

Professor Midwinter: I understood the matter slightly differently. I thought that it meant that he was able to borrow what was required, as opposed to what he was able to. In other words, he had no difficulty in borrowing the amounts of money that he thought were needed. The sum was £51 million in the first year, which is significantly below the budget provision.

Dr Murray: I had not thought that he had said that he had borrowed as much as he was able to; the paragraph that was read out came as a surprise to me. We should seek some clarity about what he actually meant.

The Convener: A number of useful issues have been raised. I suggest that, along with the reporters, we examine the various issues and the information that we have received and prepare letters to the relevant bodies, primarily the Executive. As I indicated, there is an outstanding letter from the water industry commissioner.

It will be impossible to write all those letters by committee, but we will try to capture all the points that have been made in our discussions. I hope that we can report back to the committee at our meeting on 24 February. I suggest that members leave it to the reporters and me to identify the progress that we have been able to make and to decide whether we are able to produce a revised

draft or an interim update. Clearly, there is a degree of uncertainty with regard to the information that is available to us.

When we produce our draft report, it is important that we deal with it in private. Are members agreeable to our doing so?

Members indicated agreement.

Jeremy Purvis: There is a draft report on the table. I am sure that members have comments to make on it—at the last meeting, Fergus Ewing said that he had 30 points to make—and I suggest that it would help to speed up the process if members could feed in their comments at this stage. That would ensure that we do not have to back-end our report in the way that Scottish Water had to back-end its investment programme.

The Convener: That is a fair point. It would be helpful if members could let us have their responses to the draft report by close of play on Wednesday. Of course, members will have further opportunities to make suggestions at later stages in the process.

Budget Process 2005-06

12:30

The Convener: Our next item concerns consideration of a paper from our budget adviser on "Government Expenditure & Revenue in Scotland 2001-2002"—GERS. At our meeting on 16 December, we agreed that Arthur Midwinter should prepare a paper on the subject. He has also prepared a supplementary paper that updates the information in his original paper. I invite Arthur Midwinter to speak.

Professor Midwinter: The paper is the first of three background papers to the spending review. The second, which will examine the link between spending and outputs, should be ready in March; the third will, as requested, consider trends in capital expenditure. I think that they will help the committee to get to grips with what has happened—as opposed to working with statements in planning documents about what is intended to happen—before it goes on to take decisions about the new allocation of resources.

In light of the comment that was made this morning, the committee should be clear that the figures are the Executive's own figures, so if there is a problem of robustness with the data, it lies within the system. The figures are the Executive's; only the percentages are mine. The figures have been taken straight from GERS over the years.

A comment was made that the figures were not comparable over five years. Someone should perhaps tell Andrew Goudie that, because the Executive has five-year trends in the GERS data. I do not find any problems of comparability over the years, because the Treasury uses actuals, so we are talking about cash spent.

Members should be clear that the actuals include not only the Executive's spending but local authorities' spending. That is important for the discussions that we have had in the past about ensuring that priorities are targeted and the difficulties with the block allocations to health and local government. The total spending by the different agencies is recorded in the paper, and that is important because, if local decisions are making it difficult for the Executive to achieve its spending priorities, that needs to be examined.

The budget exercise that we always do is concerned with the adequacy of the totals and the allocation of priorities. On the GERS data, the paper clearly shows that the Scottish share of the total UK budget has remained almost exactly stable and, because of our population decline, that comes through as a growth in spending per capita.

The five people's priorities and the two cross-cutting priorities were systematically agreed only

in the 2002 spending review. Although they have not been the priorities over the whole period, I wanted to flag up the results on those because they are now the stated priorities. Prior to that, things were fairly unsystematic. However, when I was trying to find out what happened to water end-year flexibility in the 2001 announcement, by chance I came across a statement that 90 per cent of the EYF had been

"allocated to our highest priorities of education and health."—[*Official Report*, 28 June 2001; Vol 3, c 2098.]

The sum of money involved was £489 million and—this is an aside, but an important one—£200 million of it was for free personal care. I say that in light of discussions in the past couple of days. There was £86 million of additional money for health and £200 million of new money that was allocated to free personal care. There is no mention in the *Official Report* of 28 June 2001 of money being transferred from cancer services, and I felt that I should bring that to the committee's attention in light of the current controversies.

Angus MacKay, who was the Minister for Finance and Local Government in 2001, said that education and health were the two priorities. What is really significant is that, when we consider the outturn data—the amounts that were actually spent—we find that the increases for education, health, transport and law and order, which are all current priorities, have all been well below the increase in the Scottish average over the period considered in the paper. I do not think that I should mention who was the minister with responsibility for housing at the time that a big increase in the housing budget took place, but it is a significant difference.

The committee should also be clear that we get the figures for the budget—the budget estimates—then the supplementary allocations and then the transfers. Then there is what local authorities actually spend and then, of course, there are underspends and EYF. All of those affect the outcome, and the message that I take from that is that the Executive ought to consider tightening up how it implements its decisions, because I have no doubt that it allocated additional moneys to health in each budget, but the outturn does not square with the allocations.

Ms Alexander: Would it be possible for Professor Midwinter to circulate to us in a greater level of detail the budget figures for housing and for other environmental services? There are various components to the housing budget and various components to other environmental services, and I would like to understand what sub-components drove a doubling in one budget and almost a doubling in the other.

Professor Midwinter: I will try to pursue that with the Executive. Those are not data that are in the public domain, but the Executive might provide them for me.

Ms Alexander: I would be grateful for that. If we are demonstrating that our budget has doubled relative to that of the UK over five years in both those areas, we need to know a little bit about what is driving that trend. In housing, there is obviously the difference between new build and debt, for example. On other environmental services, we must understand the impact of water remaining in the public domain in Scotland while being privatised in England.

As I understand it from a superficial reading, the paper talks about different treatment of debt in Scottish housing, rather than new build, and that is a challenge. On other environmental services, the driver may be a declining profile in the UK as opposed to a rising profile in Scotland, because the relativity of a rising profile in Scotland may be associated with steady investment in water here while there is a residualisation of spending in those areas in England because they are outsourced.

However, that is not my point. My point is that there are two major changes in relativities and that seeking a bit more clarity on them at the next level of detail would enhance the explanatory power that the table already has.

Professor Midwinter: We should probably just do that as a letter after the committee has discussed the report, asking whether further information can be provided.

The Convener: It might be interesting to amplify that to get some greater clarification on the figures for trade and industry and for culture, media and sport. In a sense, what we see is the threshold around 20 per cent for significant budget items, which does not really vary by more than 2 per cent in either direction. The substantial increases are the two that Wendy Alexander mentioned, plus those for trade and industry and for culture, media and sport.

Professor Midwinter: There are three different spending agencies for trade and industry. There are the Executive moneys, the European moneys and the money spent by the UK departments in Scotland.

Jeremy Purvis: I welcome the paper, which is interesting and will, I think, be interesting for some time to come. However, some more detail would be very useful, especially in the context of early discussions that we had about the current budget. The information that the adviser provided to us was that, since the Scottish Parliament was established, the housing budget had been growing at a slower rate than the overall Scottish Executive

budget had been. Set against that, the paper shows that the largest increase of any year since 1997 was in 2002.

Professor Midwinter: That budget was for the next few years; the other figures are for the previous years.

Jeremy Purvis: Indeed. The point is that if we consider past experience of cash spent, that is the fastest growing part of spend in Scotland. However, the information that you have been providing us with on forecasts has indicated that the future spend will not be so big. What the committee must reconcile is whether we believe what we are being told or whether we are being too pessimistic about the future on the basis of the information that we have. Does that forecast include an element of Treasury support? I am not sure of the timings of the stock transfer.

Professor Midwinter: The stock transfer came after that, if I remember rightly. The big one came last year, although some would have taken place already.

Jeremy Purvis: I think that the transfers in the Borders and Dumfries and Galloway may well have been before that.

Professor Midwinter: The big Glasgow transfer came in last year. You may remember that Mr Peacock came and announced it to us as part of the revision.

Jeremy Purvis: More information would be useful and could help us to scrutinise and pin down the forecasts that we are getting for the future. Certainly, those two figures are not reconciling in my mind at all.

Fergus Ewing: I wonder whether we can get some more information about the level of loan debt and about both the outstanding capital and the revenue implications of repaying loans for local government. That is information that I think is available in parliamentary answers. It seems to me that there has been an historical accumulation of debt—not just by councils such as Glasgow City Council—in order to deal with housing that is generally poorer than housing in England. I often think that the broad-brush comparison of those headlines conceals important differences, such as the fact that Scottish housing stock was an absolute disgrace for most of the early part of the previous century. The way in which that was tackled was by massive borrowings by councils, which perhaps skewed the comparison slightly.

Of course, it is only identifiable public expenditure, not non-identifiable expenditure, that appears in the figures, and there are many other arguments that I will not go into.

Professor Midwinter: I think that the item that you are looking at will be in the figures, which will contain the borrowing charges.

Fergus Ewing: I know that. I was not suggesting that those figures would not be there, but it would be interesting to compare the per capita borrowings in revenue terms that are payable in Scotland for local authority debt with the figures for England to see whether we are comparing apples with pears. I suspect that the per capita level of debt of local authorities in Scotland is much higher for historical reasons. It is therefore wrong simply to equate those headline figures in the way that we might perhaps be asked to do. I hope that that information can be provided.

It is interesting to note that, when Mr Galbraith was the Minister for Children and Education, he achieved only a 20 per cent increase, whereas the minister who was responsible for housing achieved a 136 per cent increase—some people might say that she was seven times more effective than Mr Galbraith.

Jim Mather: I was interested in the adviser's report, which has again forced me to think. Any corporate would be spending to achieve results beyond those of just spending; any corporate would be celebrating the achievement of those other results rather than celebrating spending for the sake of spending; any corporate would be considering how to increase its market share and how to maximise its turnover, its bottom line and its share price. I would have thought that any country should be spending at least to halt population decline, to have a healthier demographic skew, to achieve a long-term relative increase in incomes growth rate and to minimise economic inactivity; it would not factor adverse results in those categories back into improving the numbers, which seems to be what is happening here.

Professor Midwinter: I am not at all sure that that is what is happening. I am the only person who is factoring them in; I am doing that to interpret why the spending is growing per capita. That is in stark contrast to the situation in Northern Ireland, where the population is growing rapidly.

Jim Mather: I understand that, but I find the calculation almost incestuous. The fact that the diminution in population is seen as a positive thing, because it ameliorates the spending per capita—

Professor Midwinter: No, it is just an explanation.

Jim Mather: I am much keener for us to have time-series data on spend; that would be much healthier and would allow us to measure spend against fundamental outcomes, as would be done in any normal situation, either at corporate level or in a country that managed both sides of its profit and loss account.

The Convener: To be fair, we start from where we start from. Arthur Midwinter has done a service for us in identifying the profiles of spend. Over the next three or four years, one of our tasks might be to establish the link between the spend and the outturn or the delivery, depending on how one wants to put it. That is a more complex task, which the committee has committed itself to carrying out, even though it will not be easy to achieve.

Jim Mather: The outcome deliveries are the key issue. When Scotland eventually gets to the position in which it has one oil well offshore and one pensioner, gross domestic product per head and public spending per head will be pretty high, but the country will be a pretty depressing place.

Mr Monteith: I am not sure that I have a question, but I am interested in the line of thought that the committee is following. The paper—not least in tables 1 and 2—is certainly useful and revealing. However, I am not sure that I go with the flow of the conclusions that are in the paragraphs that accompany tables 3 and 4, on which I invite comment.

For example, if we consider expenditure on health in table 3, we see that spending in Scotland relative to that in the United Kingdom is declining. If one takes the view that the political decision in England is that the target should be to reach continental European levels of public spending on health, of course spending in England will go up relatively, whereas spending in Scotland will decline relatively, because we are already at that level. That says nothing about the Executive's priorities. If one examines the outturns of the spending by comparing the two columns in table 4, one can see that spending on health has gone up, at least in the outdated paper that I have—I do not have the newly circulated one—by some £1.7 billion, which is a significant increase in anyone's terms. I am not trying to do the Executive's job; I am just trying to take an objective—if oppositional—view of the situation.

12:45

Table 4 shows spending on education going up from just under £4 billion to just under £5 billion—an increase of about £1 billion. Clearly, there have been moves towards McCrone pay settlements, which will incur a great deal of expenditure. That may be only a relatively benign increase in expenditure of about 25 per cent, compared to the increase in spending on culture, tourism and sport; however, the committee must look at the base at which spending starts. Expenditure on culture, tourism and sport starts at just below £300 million and is, undoubtedly, more than doubling; nevertheless, that is still an increase of only £355 million compared to the £1 billion extra on education spending. Therefore, although it is

interesting to see whether the priorities are being addressed—I note what Professor Midwinter says about future years and the new priorities that have been defined—I am not wholly convinced that reading percentage increases is the way in which to measure priority in spending. As I am new to following such things in the committee, I would be interested to hear the views of Professor Midwinter or the convener on that.

Professor Midwinter: I disagree completely. I think that a fundamental task of the committee, which is written into its remit, is that it monitors the Executive's success in tackling its priorities. If the Executive is not hitting its priorities, we are failing in our duty if we do not bring that to its attention.

I accept the points that Brian Monteith makes about the scale of the increases. It is probably always the case that budgets that are small in percentage terms have higher increases. However, more important is the fact that the key priorities—the existing, big-spend priorities—are still receiving significantly less than the average increase, as opposed to the housing and culture priorities, which start from a small base. Given the fact that the minister has appeared before the committee saying that the Executive has reorganised the financial management system to ensure that the resources are ever more closely aligned to its priorities, it is the committee's job, through robust scrutiny, to check whether that is the case.

Mr Monteith: I do not doubt that. I do not dispute the committee's job.

The Convener: Brian Monteith makes a fair point. We need to take a multilayered approach that looks at base levels as well as percentage increases. Picking up Jim Mather's point, our approach should also look at what is delivered for the money. The test is only partly what money is spent; it is also the effectiveness with which the money is spent and, going beneath the level of overall departmental budgets, the level at which the budgets within that are reconfigured to deliver more successful outcomes. The percentage increase is just one part of the picture.

Professor Midwinter: The next paper will interest Mr Monteith even more, as it begins to try to get to grips with outputs. In all these things, we are constrained by what the Executive produces—what is in the public domain. The paper is in draft state at the moment, and Ross Burnside and I are going over it. It contains quite interesting data about outputs—not outcomes. I do not know what Jim Mather means by outcomes. Outcomes are going to be useful in budgets in about 50 years' time, after I am dead, whereas with outputs we can make progress. We will produce an interesting paper for the committee on that in March, which will take this one step further.

Dr Murray: Unusually, I have some sympathy with the points that Brian Monteith makes. We need to be aware that, in some cases, other people are catching up with us. It is not that we are falling behind, but that some people may be catching up. It is useful to have this analysis. I would not hit the Executive over the head about percentage changes from 2001-02; it is what happens after that and the way in which things were funded following the spending review in 2002 that will indicate whether the Executive is addressing its stated priorities of that time.

I did not really have a handle on the issue of the figures not being in real terms. In some respects, taking into account inflation and so on, would—

Professor Midwinter: That would not affect any of the four tables. We have consistently acknowledged that there has been rapid overall growth in real terms.

Dr Murray: Are the figures in real terms?

Professor Midwinter: Using real-terms figures does not matter as regards the tables because they attempt to compare percentage increases in budgets in cash terms. Real-terms figures would reduce the scale but they would not alter the trend.

Dr Murray: They would not necessarily alter the trend in that sense but, according to the tables, everybody is getting a lot more than they used to get. It could be that some budget lines are not doing as well as they were because inflation has overtaken the increase that they received.

Professor Midwinter: I would be astonished if that were the case, judging by the budget figures that I have seen over the past three years. I cannot believe that some figures might have fallen in real terms—if that is what you are suggesting—given the scale of the figures.

Dr Murray: No, but it would be useful to know, although it is probably unlikely given the scale of the figures.

Professor Midwinter: Converting the figures into real terms would only narrow the numbers; it would not change the trend. The trend would still be the same.

Dr Murray: But the magnitude of the figures is open to interpretation as well. That was not a major problem when inflation rates were low. Generally speaking, however, if a large part of an increase is just an inflationary increase, the relative differences between the numbers are less significant.

Professor Midwinter: I am not convinced. We have had 3 per cent to 4 per cent real-terms growth each year since the Parliament was established.

The Convener: That is unusual, historically.

John Swinburne: I will take up Brian Monteith's point. In table 4, would it not be better to see as a percentage of change the increase in the total budget? If the spend in education goes up by £1 billion, what percentage is that of the total budget compared to the minuscule rise in the sport and tourism budget, for example? That would give us a far more accurate reading in that third column.

Professor Midwinter: I do not follow that.

John Swinburne: I will explain it to you later, Professor Midwinter.

Professor Midwinter: You are asking me to calculate simply how the shares of the budget have changed, which I think is not likely to be as clear cut as the table that exists. It is easily done, but it will not add much. I will do that happily for you if you want me to.

The Convener: We have had a good kick around at the topic. On behalf of the committee, I thank Arthur Midwinter for his good work on the paper. We look forward to receiving further papers from him, together with the points of clarification that Wendy Alexander and I suggested we seek on the high-growth items in the budget. Fergus Ewing also made suggestions.

We would normally deal with item 6 on the agenda now, but bearing in mind the time, do members agree to defer the item? It is on a paper that outlines proposals to amend the procedure for the scrutiny of financial memoranda and can wait, if members agree.

Members indicated agreement.

Meeting closed at 12:54.

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