

FINANCE COMMITTEE

Tuesday 24 February 2004
(*Morning*)

Session 2

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FINANCE COMMITTEE

6th 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)

THE FOLLOWING GAVE EVIDENCE:

Michael Byers (Unison)

David Cullum (Scottish Parliament Directorate of Clerking and Reporting)

Anne Douglas (Prospect)

Rozanne Foyer (Scottish Trades Union Congress)

Michael Matheson (Central Scotland) (SNP)

Eddie Reilly (Public and Commercial Services Union)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Jane Sutherland

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 24 February 2004

(Morning)

[THE CONVENER *opened the meeting at 10:05*]

Public Sector Jobs Relocation Inquiry

The Convener (Des McNulty): I open the sixth meeting in 2004 of the Finance Committee. I welcome members of the press and public and our witnesses. I remind everyone that pagers and mobile phones should be switched off, in case they go off during the proceedings. We have received apologies from Wendy Alexander.

The first agenda item is our first evidence-taking session on our inquiry into the relocation of public sector jobs. At our meeting on 3 February, we agreed to instigate an inquiry to follow on from work that Fergus Ewing and Elaine Murray have undertaken. The remit of our inquiry is to inquire into and make recommendations on the objectives, criteria and weightings of a policy for dispersing public sector jobs, so that we can contribute to the development of the policy. We are also considering the mechanisms for transparency in decision making in relation to the relocation policy.

I welcome Eddie Reilly, who is the Scottish secretary of the Public and Commercial Services Union; Anne Douglas, national officer with Prospect; Michael Byers, information and development officer with Unison; and Rozanne Foyer, who is the assistant secretary at the Scottish Trades Union Congress.

It might be appropriate for those of us who are trade union members to make a declaration of interests. I am a member of the GMB and the Educational Institute of Scotland.

Dr Elaine Murray (Dumfries) (Lab): I am a member of the Transport and General Workers Union.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): I am a member of the National Union of Journalists.

The Convener: Members have a written submission from the STUC. I ask Rozanne Foyer to give a brief opening statement, after which we will begin our questioning.

Rozanne Foyer (Scottish Trades Union Congress): We thank the committee for inviting the STUC and the unions to give evidence. We welcome the terms of the inquiry. The issue is an important one that affects many trade union members. While we support in principle the Scottish Executive's policy for the relocation of public sector jobs, we think that greater transparency is needed in the implementation of the policy in practice. We believe that an objective assessment of economic development requirements throughout Scotland and a more strategic approach to jobs relocation are required. My colleagues from the PCS, Unison and Prospect will be delighted to respond to any questions or to go into any details.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): Is the STUC aware of the relocation policy that is being applied in the Republic of Ireland? The key element of that policy, which distinguishes it from the policy that the Executive is pursuing in Scotland, is that it proceeds on the voluntary principle. Under the policy, public sector workers are not compelled to move if it is decided to relocate departments or functions from Dublin to other parts of the Republic. Those who wish to move volunteer and those who do not wish to move are offered other positions within the public sector in Dublin. Does that principle find favour with the STUC?

Eddie Reilly (Public and Commercial Services Union): That is an important starting point. My union will meet representatives of the Irish civil service and public service unions in about a fortnight to talk to them about the implementation of the policy and any difficulties that they have found with it.

Not wishing to go back to what has happened at Scottish Natural Heritage and, indeed, moving on a bit, we as a civil service trade union feel that the principle that only volunteers should be relocated is important and should be enshrined in future relocation policy. The dispersal of jobs from London in the 1970s—many of which came to Scotland—was based on a volunteers-only approach and the premise that other departments would absorb the surplus. However, such an approach does not appear to have been taken with SNH.

As for the ability to absorb surplus staff, we must make a distinction between the civil service and the public sector. For example, in the case of SNH, a few public servants who were previously civil servants could have been absorbed back into the civil service. However, the vast majority of public sector workers would not be able to cross the drawbridge into the civil service because they have not been recruited or appointed under central United Kingdom civil service rules. That important

factor is missing from what is happening at the moment.

The implementation of the entire relocation exercise lacks central management. It is almost as if public sector and civil service organisations are operating in silos with regard to the choice of locations and with criteria that do not appear to be consistently applied across the board. If social and economic circumstances are the major determining factors, no one quite knows how such criteria are being applied. Moreover, as I said, the situation is not being managed centrally.

Fergus Ewing: That comment perhaps brings me to another key aspect and principle of Irish relocation policy. That policy has a clear starting point called the national spatial strategy, which seeks to identify the parts of Ireland that have most need of the economic boost that relocation can bring. Indeed, the Irish deliberately seek out the areas that most need such a boost, which seems to be a commonsense approach. I imagine that it is also politically controversial, because Cabinet ministers might be suspected of securing plum departments for their areas. However, that is politics.

As I understand it, a key element of the Irish policy is that, before a decision is taken on which department or function is to be relocated, consultation takes place between the unions and the Government. In other words, the Government does not simply issue a diktat about which department, part of a department or function is to move. Instead, your counterpart bodies in Ireland are fully involved and engaged in the process of reaching a decision about the departments that it is appropriate to consider for relocation. Am I right to say that that is the situation in Ireland? Do you want that to happen in Scotland?

Anne Douglas (Prospect): Yes, that is our understanding of what happens in Ireland and we would very much like such an element to be included in any Scottish relocation policy. We are concerned that the current policy appears to be implemented in a piecemeal way. Indeed, the fact that lease breaks form one of the determinants for relocation makes the process almost artificial. We need a far more cohesive approach that not only examines Scotland's needs as far as jobs dispersal within Scotland is concerned but that takes into account the possibility that jobs might transfer to Scotland as a result of the UK review of dispersal policy. If we had a national debate that involved the unions and other stakeholders in Scotland, such as the business community, local government, enterprise agencies and obviously the Scottish Executive, that would give Scotland an opportunity to utilise its resources in the best possible way and to level the playing field in socioeconomic terms.

Fergus Ewing: The final aspect and principle of the Irish model that I wanted to mention is perhaps a consequence of the voluntary principle. Because the Irish seek volunteers, there is no need for compulsory redundancies—or, at least, if there are any redundancies, they take place on a much smaller scale. The human cost of redundancy is often understated; indeed, we perhaps look too readily at the financial costs alone. Do you agree that another advantage of a relocation policy that is based on the principle of volunteers rather than conscripts is that the actual financial and human costs are not as great? After all, that approach avoids a large and perhaps unnecessary amount of compulsory redundancies, which is what, according to the predictions of Eddie Reilly's colleagues, might happen with SNH.

10:15

Michael Byers (Unison): Unison feels that a major flaw in the process has been the limited use of partnership working at the local level between the Executive and all stakeholders, including trade unions. As that obviously impinges on staff, we urge the Executive to get involved in partnership working from the outset of any relocation process.

Mr Brocklebank: I would love to think that Ireland is the utopia that we keep hearing it is. I have never been to the place, but I am sure that it is.

I do not want to misquote Tavish Scott, but I recollect that in his evidence to the committee he said that, although Ireland had a voluntary system for relocation, it was often the case that not enough people volunteered to go where the Government wished them to go. As a result, an element of compulsion eventually came into play. Is that your experience of the system? Common sense would suggest that people simply do not want to go to some areas, which means that any voluntary system would fall down.

Eddie Reilly: Your question raises a number of issues. First, ministers must make up their minds about whether they want the people to go with the jobs or whether they want the jobs alone to be relocated, allowing people to be absorbed into other parts of the civil service or other public sector organisations. If we are not managing the exercise centrally, that evaluation cannot take place. We need a central relocation unit within the Scottish Executive civil service to examine and manage the implementation of the relocation policy with transparent criteria and the ability to make assessments. For example, as far as lease breaks are concerned, if the Registers of Scotland, which has about 1,000 employees, decided to relocate, there is no way in which the people who did not wish to relocate could be absorbed into Scottish Executive main. Indeed, about 90 priority

ticket holders in that department have been awaiting assignment over the past 12 months.

Decisions on such matters are as important as the decisions on the timescale for a relocation. It might be possible to manage a substantial relocation over a period of time instead of having to deal with a relocation that happens simply as a result of a lease break. For example, it was decided that, due to a lease break, the Scottish Public Pensions Agency should relocate to Galashiels. The fact that public transport links from Edinburgh to that area are not very good immediately affected the number of people who volunteered and, because those who remained were absorbed into Scottish Executive main, a considerable number of jobs could be advertised in the Galashiels area.

However, assessment must be made at the centre—and not just by ministers. Quite honestly, we suspect that the SNH relocation and other matters are more to do with political expediency than with the proper application of criteria for relocation. On a number of occasions we have asked the Minister for Finance and Public Services to evaluate the implementation of relocation policy, only to be told that no one has responsibility for that. That arouses considerable suspicion, whether that suspicion is merited or not. In the minister's most recent letter to the STUC, which followed a meeting that we had with him, the explanation of the criteria was a dog's breakfast: no one could make any sense of it, certainly on our side. Whichever Government is in power should properly review the implementation of the relocation policy, make the criteria transparent, manage the policy centrally and discuss it with all stakeholders, including the unions. There should be more of a top-to-bottom approach, rather than the bottom-up exercise that happens just now. I think that that was the point that Fergus Ewing was making.

The Convener: As the inquiry's remit—which I outlined at the start of the meeting—suggests, we are trying to be proactive and to consider what the policy should be, rather than focus narrowly on what it is. I think that the STUC welcomed that.

Mr Brocklebank: I do not disagree with anything that Eddie Reilly has said. Clearly, much is wrong with the relocation policy as it is currently being implemented. We are told that the process is evolving, but clearly there have been more ups and downs in that evolution process than one would have hoped for.

Do you accept that, if we want to move people away from large cities such as Glasgow and Edinburgh, the nature of the people who live in and enjoy the benefits of such cities, such as schooling, means that it is unlikely that they will all be happy to move to remote parts of Scotland? I

do not want to cast aspersions on any towns, so I will not name any. There will not always be the voluntary element to the relocation that appears to be the case in Ireland, as Fergus Ewing and others have suggested.

Eddie Reilly: That might be the case on certain occasions and within certain departments, agencies or public sector organisations. However, Fergus Ewing was quite correct to make the point that what is important is how the move is managed. It might be that, as was the case with the Scottish Public Pensions Agency, we can relocate some staff, train others and create job opportunities, while still being able to absorb into other parts of the civil service those who do not want to move.

It would be better if that process were managed centrally, using completely transparent criteria and taking decisions about the areas that most need jobs. People who live beyond Inverness will tell you that the north of Scotland does not stop at Inverness; indeed, Inverness has a booming economy compared with some areas that should be considered. If a proper assessment were made, which was opened up to stakeholders, it would be possible to have a discussion and come up with a priority list of venues for relocation. That process could be managed sensibly and only those who volunteered would be relocated.

John Swinburne (Central Scotland) (SSCUP): Do you agree that, although the principle of relocation is a good one, not enough thought has gone into it? Relocation should be voluntary and take place over a much longer time, using natural wastage so that the jobs of people who retire are filled elsewhere. That would cause less disruption to families. The last thing that we want is a repeat of the Highland clearances in Edinburgh, as the city is cleared out in an attempt to repopulate the Highlands, but that seems to be the thinking behind some of the current policies.

As you said, we need a co-ordinating body that would control the whole process and ensure that there were better incentives, because often a person might want to move, but their partner might have a better job in Edinburgh than they could find elsewhere. The principle of relocation is all right, but the implementation is far from perfect and we must consider the policy internally before it goes any further.

Eddie Reilly: That is right. Family-friendly policy is often forgotten about—except perhaps by the Parliament. People's lives are disrupted by relocation, especially given that in many families both partners work. What happens to the kids when they have to change schools and all the rest of it? All those factors have to be weighted and considered.

The Convener: We must face head on the hard fact that any relocation policy will affect people. If we say that there must be no detriment to anyone as a consequence of a relocation decision, we will never make a relocation decision.

If I understand you correctly, Eddie, you are saying not that there should be no relocation, but that there should be a managed process of relocation that would address the adverse consequences for individuals of relocation decisions. You are saying not that relocation should not go ahead if there is any prospect of a disadvantage to individuals, but that in such situations a set of steps should be in place which could be taken to allow people to find alternative employment or to identify precisely how the prospective disadvantage might be dealt with.

One can be committed to a relocation policy in general and perhaps to achieving certain targets—the transfer of X number of jobs away from Edinburgh, for example. However, how do we decide which jobs should be relocated? From the trade unions' point of view, what processes are appropriate and fair in that context? If I have understood you correctly, I think that you might argue that, in essence, we should target for relocation the jobs whose holders might find alternative employment, because that might be easier. Do you accept that there are other pressures and that other parts of Scotland might want higher-level and more specialist jobs to be transferred? How do we deal with that complexity?

Eddie Reilly: I am sure that my union's members would not want me today, off the top of my head, to draw up a hit list of jobs that could be relocated.

On your first point, we must understand that we do not need to reinvent the wheel. In the 1970s, there was substantial dispersal—as it was then called—of jobs so that, for example, thousands of civil servants in Edinburgh worked for the Inland Revenue and dealt with London and provincial tax districts. Considerable numbers of Ministry of Defence staff were relocated and jobs also went from London to the north-east and the north-west, for example. All that was managed centrally and the need for compulsory redundancies was avoided.

On your broader point about the jobs that might be relocated, another key factor, which tends to militate against the leasehold approach, is that there are areas of the civil service to which there should be greater local public accessibility. A core of policy jobs might well need to remain close to ministers, but other parts of an organisation might be enhanced and public accessibility increased by relocation to other parts of Scotland. We are only five years into the life of the Scottish Parliament, so it is difficult to be specific about the jobs that

might be relocated. Often there is no need to relocate whole organisations, but parts can be relocated to increase public accessibility.

We have little difficulty, industrially, with small relocations. A relocation such as the Scottish Executive inquiry reporters unit's move from Edinburgh to Falkirk does not create difficulties in relation to transport links or the numbers of jobs that are involved. The big problems arise when we consider, for example, where the new transport agency should be based or where the Registers of Scotland should go if it has a lease break.

Part of the problem, which again comes back to the point that Fergus Ewing raised, is that Scottish ministers seem to be considering only the jobs that the Executive is relocating, while taking no account of the number of civil service or public sector jobs that exist in UK departments and agencies. Beyond the jobs for which Scottish ministers are responsible, the Department for Work and Pensions and other such bodies employ people in Inverness and elsewhere in Scotland. That makes us concerned about looking at relocation purely in terms of jobs that are controlled by Scottish ministers. The Lyons review is going on at UK level and I think that it was Andy Kerr—I apologise if it was not him—who said in a recent statement to Parliament that the Executive would shout loud for Scotland. Where does that knit in with the social and economic circumstances, when there are a number of UK civil service jobs in other parts of the country? That does not seem to be taken into account in the equation.

If we are looking to move civil service or public sector jobs—either as whole organisations or as parts of them—it is important that priority should be given to assisting in developing local public access to Government services. However, we must bear in mind one aim that we all share—we want to ensure that there is an effective machinery of government. That important criterion must also be weighed up with the others.

10:30

The Convener: I would like to ask two more questions before I bring in other members. One of the things that—

Rozanne Foyer: Other members of the panel want to answer some of your previous questions.

The Convener: Sure.

Anne Douglas: You asked what jobs should be dispersed and what jobs should be transferred. Eddie Reilly has identified obvious difficulties. We are not going to give you a hit list, but I think that it is right that all areas of Scotland should benefit from high-skill jobs and professional jobs as well

as jobs that are easily filled without training. That is another reason why we think it important that the Scottish Executive take an holistic view over the long term, so that we are not just transferring people who volunteer, but ensuring that there is a feedstock for specialist jobs to be replaced in different parts of Scotland in future.

The Convener: The first of the other questions that I wanted to ask was about the way in which the present policy operates. With the exception of SNH going to Inverness, most of the other relocations have been to places not that far from Edinburgh—Galashiels, Falkirk and Dundee. However, from a west of Scotland perspective, or from Elaine Murray's south of Scotland perspective, there has not been significant job transfer. If we look at the west of Scotland beyond Glasgow, we see that those areas have the highest levels of unemployment. Is it your view that that is a flaw in the existing system? Would a different system address that issue more effectively?

Michael Byers: It seems to me that there is a desperate need in some parts of Scotland for those opportunities for relocation. The current policy, as we view it, seems to overlook relocation to those areas. We would like a mechanism that would enable us to take a closer look at the process and to manage it better, so that those areas are at least considered.

Eddie Reilly: I return to the point that Fergus Ewing made at the outset. If the main thrust of relocation policy is about social and economic factors, as it was in the 1970s, and if those factors are the key criteria—not exclusive, but key—there must be a more top-down rather than bottom-up approach. There needs to be a look across the board at the areas that anyone who is considering relocation should take into account, whether that is because of a lease break or whether it involves small relocations. That would be a critical change of direction. At present, there is a silo approach and organisations look at the situation from the bottom up rather than in consultation with one another, with no one at the centre, apart from ministers, taking a view of the matter. We also find that a fair amount of money is spent on consultants. Then, when the reports come in and choices are made, somewhere that was 20th on the list all of a sudden becomes number 1. That makes it impossible for anyone to have confidence or faith in the system.

The Convener: As part of our earlier exercise, we got the consultants' reports for three of the relocations. The criteria did not seem to throw up the most disadvantaged areas of Scotland as the places to which those jobs should go. The mix of criteria appeared to throw up Stirling and Dunfermline as the only two places in Scotland

that met the specific criteria that were being used, although that may just be a matter of the fine-tuning needing to be sorted out. It was interesting not only that those were the two places that were being picked, but that the same approach was being adopted across a number of different relocations.

We cannot have a system that always throws up the same answer, whatever that answer might be. There must be a mechanism that allows us to match job availability with the locations that organisations want to go to, so that there is a framework within which those jobs will be particularly valuable in the areas that they are heading for. I presume that that is an issue that you would take on board from a wider trade union perspective.

Eddie Reilly: Absolutely.

Anne Douglas: That is what we are looking for. The social and economic criteria should be applied at a Scotland-wide level. Sustainable transport, the availability of accommodation and the business effectiveness of the relocation should follow on from that, but the first decision, which should be made on a national basis, must be based on social and economic factors relating to which areas need jobs. Then and only then should we look at what jobs could possibly be transferred to level out the playing field and make things more equal.

Dr Murray: One of the things that struck us when we looked at the analysis of some of the relocation proposals was that decisions were dependent on how the consultants interpreted the criteria. In some cases, their analysis seemed, to those of us who live and work in certain areas and know them better than Edinburgh-based consultants do, to be dubious.

I was struck by your evidence about how the policy seems to have evolved over a period of time and how it has been identified only through ministers' responses to questions. I think that that is true, and that really is a criticism that could be levelled against the Executive. There has not been any public debate about the relocation policy, even within the Parliament, never mind with anybody else. We are beginning to address that now by holding this inquiry.

One of the things that has evolved is the policy of small units relocation, which the Executive is quite enthusiastic about. I presume that there has not been any specific consultation with the unions on that policy, but I wonder whether the unions would find that a better way of going about things. Would that address some of your concerns about the voluntary nature of relocation? If departments identify small units that could go to more remote communities, should that be more of a driver than

large-scale relocations such as SNH upping sticks and going up to Inverness?

Eddie Reilly: The fact that there are no industrial problems with the small relocations does not make the rest of it all right. The same problems will still arise. For example, if the Scottish Executive inquiry reporters unit is moving from Edinburgh to Falkirk, that obviously throws up no industrial problems. It is easy for people to stay where they are and to travel, so the move is not a difficulty. However, that does not mean that the decision on Falkirk was right.

If social and economic reasons are meant to be the main driver, other parts of the decision about a small relocation could be just as wrong as they have been in some bigger relocations. No matter what relocation policy is being applied, the criteria for that policy must be applied transparently, regardless of whether the relocation is small or large. That is the important point.

It would be easy for us to say that we totally support small relocations as the way forward. Small relocations should be part of the policy. However, just because a small relocation would not have the industrial consequences that come with decisions such as the one to relocate SNH, that does not necessarily make the rest of the decision right. The approach that we propose is that relocation policy should be reviewed and changed so that it is managed centrally. The approach ought to be applied consistently both to small and large relocations.

Dr Murray: My question was more about what the emphasis of the policy should be. None of us is content with the transparency of the way in which the criteria were identified or with the way in which they have been applied since.

If we are to make recommendations to the Executive on how the relocation policy should be shaped, should we recommend a change of emphasis from large-scale relocations to smaller-scale relocations? What do the other unions feel about that? Would an emphasis on small-scale relocations be an easier way of dealing with some of the consequences for workers? Would that give more flexibility? Should the Executive go down that road rather than go for the big headline-grabbing relocations? We should bear it in mind that small-scale relocations could go to smaller and more remote communities, which might be more appropriate.

Michael Byers: If the Executive could engage with trade unions and involve them in smaller relocations, that could act as a springboard for establishing more effective partnership working in the larger relocation processes. It is all about engaging. In Unison's opinion, the Executive is failing to engage with all stakeholders, especially

trade unions, during the current relocation processes.

Dr Murray: Has there been little consultation with the trade unions in any of the relocations so far?

Michael Byers: Our experience of the relocation of the Common Services Agency was that there was plenty of consultation on the part of the national health service employers, but, in effect, no consultation on the part of the Executive.

Anne Douglas: On whether small relocations are the way forward, I agree with the PCS that the issue is not whether there should be a mixture of large-scale and small-scale relocations. The problem would not be resolved by having only small-scale relocations. The problem is that the policy itself is not right—it is not transparent, it does not take a long-term view, and it does not look widely enough. It is like trying to put together a jigsaw without knowing what picture you are trying to make. If we can see the picture, we can take steps to fill it in to benefit the whole of the country.

Eddie Reilly is right to say that small-scale relocations would avoid some of the industrial problems, but that is not to say that they would bring the benefits to the whole of Scotland that the relocation policy is supposed to bring.

Dr Murray: So small-scale relocations should still take place within an overall policy framework.

Anne Douglas: Absolutely.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Eddie Reilly mentioned that the Executive should have a role in the UK relocation policy. I endorse that. Did he read the oral evidence that the Deputy Minister for Finance and Public Services gave to the committee? The minister outlined not only how the Executive intends to link in with the review at Westminster, but how Scottish Development International has been given a role in lobbying for the location of European Union civil service jobs in Scotland. Perhaps there is potential for Mr Reilly's colleagues at Westminster to link in with his Scottish colleagues so that there is an overall Scottish approach. I think that the Parliament would welcome that. Did Mr Reilly read that evidence?

Eddie Reilly: I am sorry, but I have not seen it.

10:45

Jeremy Purvis: The convener raised an important issue that comes down to whether the relocation policy should take a top-down or bottom-up approach. I have no direct interest in the matter, but I have a constituency interest. I represent and live in Galashiels, so I see the

Scottish Public Pensions Agency regularly. It is perhaps worth asking whether, given the poor transport links that have been mentioned, that relocation would ever have happened if people had been asked whether they wanted to move to Galashiels. Is it fair to say that, if relocations were purely voluntary, there would be no relocations because nobody would want to face such upheaval either in their organisation or in their personal lives?

That question is perhaps more for the STUC and for Eddie Reilly.

Eddie Reilly: I do not think that that is true. As far as our union was concerned, the SPPA relocation involved full consultation. We were afforded every opportunity to hold meetings with our members to discuss the issue with them. We had no real problems at all. We negotiated allowances for people. Training was provided for staff in Galashiels and some staff went to Galashiels for a short period while other staff were being recruited. Of course, not all staff moved to Galashiels but a considerable number did.

On a micro level, the SPPA is a good example of a relocation, because there was good will, co-operation and partnership among the employer, the ministers and the unions. We supported the relocation. I stress that our experience was that the relocation of the SPPA was a success. At that time, staff who wanted to remain in Edinburgh were able to be absorbed, although it would be a different matter if the relocation were to take place today.

We asked the minister at the time why the Executive's approach made relocations dependent on lease breaks. With the pensions industry being in Edinburgh, it might have made more sense to keep the SPPA where it was and to move part of the Scottish Executive Environment and Rural Affairs Department to Galashiels. Galashiels might have ended up with the same number of jobs at the end of the day. However, because SEERAD was not asked to examine relocation options because it did not have a lease break, the SPPA jobs had to go to Galashiels. I do not say that that will prove to be the wrong decision, but I think that it makes no sense to look at relocation in that way.

In response to the question, the SPPA relocation was a success because staff who did not want to relocate could be absorbed, staff who wanted to relocate could volunteer and new staff could be recruited in the area. That meant that good quality work could be moved to Galashiels.

Jeremy Purvis: You commented on the need for more central direction, such as a unit in the Executive that could steer through the policy. I am interested in the role of such a unit.

As an outsider, I agree with you entirely that the SPPA relocation was a success because there

was a close relationship between your members and the agency and because of the way in which the agency approached the issue. Your written evidence mentions a need for transparency, which comes up in all the suggestions.

You highlighted the need for the involvement of all three players: staff, the employer and ministers, with whom the ultimate decisions lie. Given that any successful relocation probably involves a greater role for staff and the employer, with ministers just ensuring that guidelines are complied with and so on, I am a bit concerned about the proposal that there should be a central unit that would almost have powers of direction.

I am especially concerned about the suggestion that a relocation decision might involve two relocations, whereby one agency might be required to move outside Edinburgh so that another agency could move within Edinburgh to the building that the first had vacated. That would involve a considerable amount of shuffling. I would be concerned about giving more powers to the centre. I would rather that we allowed for a bottom-up approach, which your written evidence says might be justified.

Eddie Reilly: The problem with that suggestion is that six civil service agencies and three public sector bodies might all be on lease break at the one time. They would all have to consider where to go and all of them would hire consultants. They could all end up in the one location. What would be the point in that?

The Convener: They might all end up in Stirling or Dunfermline.

Eddie Reilly: The issue is not whether those organisations have the right to take views on where it would be best for them to go. There needs to be central management of the implementation of relocation policy and of the application of the criteria. Unless we take a top-down approach that takes into account which areas in Scotland are most in need, each organisation will act within its own silo. Relocation reviews will be conducted and concluded without even the Scottish Executive civil servants at the centre knowing whether the relocations will lead to compulsory redundancies or transfers, or require absorption of civil servants into Scottish Executive main.

Jeremy Purvis: But not all agencies are the same. Relocating the sea fisheries division of the Scottish Executive Environment and Rural Affairs Department is different from relocating the Scottish Public Pensions Agency, which is different from relocating the children's commissioner or the information commissioner. Your evidence shows that there are huge differences.

Even just stating, "You will operate against agreed guidelines, and there are preferred areas in Scotland," would set a remarkable precedent; if any unit under any minister were to lay down a list of areas of need, there would be 129 MSPs taking one view or another on it. I would argue that jobs should be relocated to the Borders, and I am sure that Elaine Murray and others would argue that jobs should be relocated to their areas. How would you protect particular agencies, given that your evidence states that one of the important issues is operational effectiveness?

The Convener: My understanding of a central agency is not that it would be directive, but that it would be guiding and shaping.

Rozanne Foyer: On the bigger picture, we all need to recognise that relocation is difficult. There is a lot to be learned from successful and less successful relocations in the past. Experience and expertise can be built up, but that does not mean not working in partnership with all the public sector agencies or departments concerned. A piecemeal approach should not be taken. A strategic overview that has the benefit of past experience must be taken.

Nobody is saying that every time there is a relocation we will manage to move every member of staff on a voluntary basis. We are not saying that there is a utopia that we want to reach, because we need to recognise that that utopia cannot be reached. However, if we decided to go down the relocation road, budgets and so on would have to take account of the hard issues to ensure that staff were properly supported if they decided to move, or that they were moved elsewhere if possible or, if that was not possible, that they were properly recompensed for the human cost of compulsory redundancy.

There needs to be a strategic overview, and we need to be able to talk in detail about how a relocation policy is developed. Once the policy is developed, it has to be open to scrutiny. Every relocation should be judged against a fair and open policy.

Jeremy Purvis: The weightings that consultants use and which ministers have cited have been supplied to the committee and are in the public domain. Like Elaine Murray, I query some of the conclusions of the consultants and some of the decisions of ministers. Nevertheless, criteria and weightings have been published, which should take into consideration some of the comments of Anne Douglas and members, who wish relocation to stimulate local economies. Do you have a problem with the weightings? Have you seen them?

Eddie Reilly: No.

Anne Douglas: I think that we have, if you mean those on sustainable transport,

accommodation availability and business effectiveness. One of the issues is that consultants weight those three areas to suit what their reports will say at the end of the day.

Jeremy Purvis: Consultants would never do that, surely.

Anne Douglas: We are looking for agreed principles that will apply irrespective of the agency or department that is being considered for relocation. That is where the top-down approach that we want to see would come in, so that there would be fairness and equal consideration of the options.

Jeremy Purvis: That is where the weightings come in, so that the criteria are set. We all have problems with the consultants' conclusions, but the weightings are designed to act against the problems by effectively equalising areas of social deprivation and economic development. If the weightings are not working practically that is fine, but we would appreciate it if you would consider the issue and respond in detail. Our clerks can point you to the information that we have been given.

The Convener: I will cut back this discussion, because we are getting into the same dialogue. There is a sense that the criteria are very general, and that the scoring system is susceptible to being interpreted by different consultants in slightly different ways—although, surprisingly, they all end up with similar conclusions on locations. The criteria and scoring system need to be more sophisticated, so that they do not disbar areas of Scotland—as the present system seems to do—that lie outwith the central belt. We could examine that. We would welcome any contribution that the STUC wished to make on how criteria could be set out and how scoring should be undertaken in the broader sense to achieve a more objective system, rather than the ad hoc lease system that we have at present.

Kate Maclean (Dundee West) (Lab): I apologise to the witnesses for being late. I was caught up in traffic, which may be an argument for relocating the Scottish Parliament somewhere north of the Forth road bridge, possibly in Dundee. That would be a good idea.

Although a new agency has located to Dundee, we have had no relocations of Scottish Executive civil service jobs. However, the UK Government has relocated a significant number of jobs to Dundee in recent years.

All the witnesses accept that the relocation of jobs for social and economic reasons is good in principle, in terms of spreading the benefit of having a Scottish Parliament throughout Scotland. Anne Douglas and Eddie Reilly mentioned the absorption of jobs. Will that become more difficult

the more relocations that take place? A core of people will not want to relocate out of Edinburgh or Glasgow. In previous relocations, they may have been absorbed into the remaining work force in those areas but, eventually, there will be an element of compulsion in relocation. How do you see that progressing? Do you have any solutions?

Eddie Reilly: We favour relocation in principle and in practice, if it is properly managed, but we are not about creating employment in one part of Scotland at the expense of creating unemployment elsewhere. For example, Scottish Executive main over the past year has absorbed more than 100 jobs from the rundown of the UK Department for Work and Pensions. That department has announced that by 2006 a further 18,000 jobs will go on a UK basis.

The Cabinet secretary is making statements today in London about reform of the civil service. The Gershon report referred to the hard figure of 80,000 jobs that will go in the UK civil service. I understand that the permanent secretary of the Scottish Executive is speaking to the unions this morning about how that figure will impact here. Taken with the 10 per cent cutback in jobs, if those things come to pass, over the next few years they will create an impossible situation in terms of Scottish Executive main absorbing people who are unwilling to relocate.

11:00

The management of the relocation policy might have to take that into account. Perhaps things cannot move as fast as people would like them to move. The loss of the jobs might impact hard on certain parts of Scotland, which might change the overall picture that Scottish Executive ministers are looking at. The timescale of how relocation is achieved in those circumstances would have to be considered as a factor. Parts of an organisation could be moved, if that is the sensible way forward, rather than moving the whole organisation and facing people with compulsory redundancies or compulsory transfers.

Kate Maclean: Is it not usually the case that if parts of an organisation are kept at the centre and parts are moved to the peripheries, the highest-quality jobs remain at the centre and the lower-paid jobs are moved out, so that the application of the policy has a disproportionately detrimental effect on lower-paid workers in the civil service and protects higher-paid workers?

Michael Byers: That was certainly the case with the CSA's relocation to the Gyle. Many of our members who made the move are lower-paid clerical staff. Although the move from Edinburgh to the Gyle is only short, many work-life balance issues and extra child care expenses are involved,

which are other human factors that the Executive is not factoring into the relocation process.

Jim Mather (Highlands and Islands) (SNP): I am struck by how our views converge on the overall criteria in the strategy—the holistic approach, transparency, the top-down exercise and the emphasis on volunteering. I see trade unions, local government and the enterprise agencies playing a strong role and I see the Scottish Executive becoming the co-ordinating body, but who else should play a role, to bring clarity and instil momentum?

Rozanne Foyer: We would not suggest bodies other than those that you have listed. Obviously, employers and the different departments would have a role to play and local authorities would have a key role to play alongside enterprise agencies. In every case there are a range of stakeholders that we would want to include. Our key message is: please do not forget the unions, because they have been left off the list far too often.

Jim Mather: I want to focus on the unions for a moment. What on-going co-operation is there among trade unions in the constituent nations and regions of the United Kingdom to promote actively job relocation out of London?

Eddie Reilly: Nationally, the PCSU and its predecessor unions have always supported relocation and the dispersal of jobs, as long as they can be done in a managed way. There are problems with the relocation of jobs out of London that perhaps do not apply to the relocation of jobs in Scotland. The high concentration of ethnic minority staff, especially, although not exclusively, in London, and the need to maintain local access to job centres and benefits offices are major issues. In Scotland, we see public accessibility as a key factor. Rates of pay and issues about ethnic minority staff are a big concern for our members in London, but that does not apply to the same extent here.

Jim Mather: That is an interesting response. Just before Christmas, it was announced that 10,300 jobs were to be relocated out of Dublin. That is equivalent to about 215,000 jobs being relocated out of London, which is a huge number. Do you plan to carry out an investigation into the Irish national spatial strategy?

Eddie Reilly: I hope to go with a delegation to Dublin in two or three weeks to meet the Irish civil service and public service unions. I will be happy to share our report with the committee once we have written it up. One of the things that I want to establish is that we are comparing like with like. I do not know the extent of centralisation in Dublin in the Republic of Ireland. It appears that the Irish Government and senior civil servants have taken

the view that if someone sells their house in Dublin, that will be sufficient to carry them for the rest of their life when they move to Cavan or Kilkenny and so, as I understand it, there are no relocation packages. That is not how we have dealt with relocation here. I would like to wait and see the outcome of our report to ensure that we are comparing like with like when we compare London, Dublin, Edinburgh, Glasgow and the rest of Scotland.

The Convener: I am anxious to end this evidence-taking session, but I will allow two brief questions from Fergus Ewing and Ted Brocklebank.

Fergus Ewing: I turn to mobility clauses, which are directly relevant to any relocation policy. My understanding is that, within the civil service, there is a mobility clause that requires civil servants, such as procurators fiscal or those working in the Scottish Prison Service, to move where they are told, as part of the service that they are expected to provide in the career that they pursue. My understanding is that, broadly speaking, in non-departmental public bodies such as SNH, the terms and conditions of employment are different. In SNH only the employees who were inherited from the Countryside Commission for Scotland have mobility clauses in their contracts. I understand from a letter from SNH that I received last week that the Executive has agreed that the employees of SNH with mobility clauses will receive a relocation package should they decline to move to Inverness. That has been agreed, but I do not know whether it has been made public yet. I wanted to raise the general issue and hear your comments about what you would regard as the ideal system and whether you think that the current system is somewhat anomalous in that some public sector workers are more equal than others, depending on the history of their contractual conditions and entitlements.

Anne Douglas: The circumstances depend not only on the person's employment history but on their grade. We have significant reservations about mobility clauses. My understanding is that despite their being in civil service contracts, the civil service has reservations about them, because of the potential for discrimination in the event that they are invoked. That is perhaps one of the reasons why the letter from SNH came out last week or the week before. That comes back to the question of relocating being voluntary. We are keen to see relocation progress on a voluntary basis, irrespective of whether people have mobility clauses in their contract.

Eddie Reilly: The staff whom you are talking about in NDPBs are likely to be those who were civil servants prior to 1992. Whatever number there are in SNH, they would have a right of return

to the civil service whereas others would not. On the mobility obligation generally, Anne Douglas is absolutely right that the employer—whoever that is for civil servants nowadays—has never sought to enforce it, because we have said that we will challenge it in law for the reasons that she gave. The obligation applied to what used to be called executive officers and those above them.

Mr Brocklebank: I certainly do not want to contest Jim Mather's view that there has been a convergence of views this morning, but if one wanted to be mischievous—especially in the light of what Eddie Reilly said about the possibility of a large number of civil service and other jobs being lost in the coming years—one could say that the central management group that is being advocated might well be a way simply to have more civil service jobs based somewhere such as Edinburgh to replace the consultants who, as we have all said, came up with a number of ideas that were promptly dismissed by ministers.

I think that your report dealt with the fact that, even if the central management group were responsible for overseeing relocations and giving a considered opinion on why they should happen and so on, ministers would still be ultimately responsible. Do you agree that your suggestion might simply replace a group of private sector consultants with a group of trade union organisers? Can you see why it strikes me that the idea might simply be to replace some of the jobs that are being lost?

Eddie Reilly: I cannot see that at all. We are not arguing for more jobs; we are saying that there should be civil servants who are accountable to ministers and who, in whatever number—it does not matter whether it is two, three or four people—can deal not with the decisions on the relocations, but with guiding, implementing and ensuring the consistency of the relocation policy, as the convener outlined earlier.

I would imagine that, if what is predicted about the loss of civil service jobs is the case, the unions will react to that in ways that have nothing to do with relocation.

The Convener: An interesting study that will probably never be done would be into relocations that did not happen and why they did not happen. Perhaps some of the location decisions that have been made in the past two or three years related to agencies that had been set up in Edinburgh or in places that would not meet the criteria without a process taking place. Perhaps we need to focus attention on why some departments seem rather neatly to evade relocation.

I thank the witnesses for attending. The process is continuing and our further work on the matter will involve visits to some of the places where

relocations have taken place. We will work towards producing a report at the end of the exercise. If the STUC or the individual unions want to pass further information to us, we would be happy to receive that, as long as we do so within the timescale that we have set for finishing the process.

It might be worth saying on the record that, as we agreed at our meeting on 3 February, we will be establishing an online questionnaire to get the views of public sector staff on relocations. The questionnaire will be online for the whole of March and we hope to make available an analysis of the responses by the end of the Easter recess. That will give everybody an opportunity to say their piece on the issue. I think that it is quite a good thing for the Parliament to be doing in terms of its mission to be open and accessible.

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

11:14

The Convener: The second item on our agenda is further consideration of the Fire Sprinklers in Residential Premises (Scotland) Bill. We have with us Michael Matheson, who is the proposer of the bill, and David Cullum and Zoé Dean from the Scottish Parliament's non-Executive bills unit. Members have a copy of a written submission from Michael Matheson, a submission from the Convention of Scottish Local Authorities and some further information from the Scottish Federation of Housing Associations. I think that people should also have some papers that came in yesterday from the Scottish Association of Landlords.

I invite Michael Matheson to make a brief opening statement.

Michael Matheson (Central Scotland) (SNP): Consultation on my bill started in September 2001, at which point I actively sought information on which types of properties should have sprinkler systems installed. Some 50 per cent of those who responded to the consultation made it clear that housing for elderly people should be a priority. Last week, that view received support from the report on a two-and-a-half year study that was commissioned by the Office of the Deputy Prime Minister. A quarter of those who responded to my consultation stated that houses in multiple occupation should be a priority for sprinkler installation. Many HMOs are occupied by the vulnerable in our society, which is recognised by the fact that such properties now require to be licensed. Both the Prime Minister and the Under-Secretary of State at the Office of the Deputy Prime Minister have stated recently in the House of Commons that there is a case for installing sprinklers in properties that are occupied by the vulnerable.

Additionally, in 1998, the Department of the Environment, Transport and the Regions, published a research report entitled "Fire Risk in Houses in Multiple Occupation" that identifies HMOs as properties at risk.

I note in the evidence that has been submitted to the committee the suggestion that the current legislation for HMOs is adequate. I believe that that statement reflects the historical approach to fire safety, not only in Scotland, but throughout the world. Many of today's fire safety regulations have been shaped by our experience of previous fire tragedies. Given that Scotland has double the annual fire death rate of England and Wales, I do not believe that we can afford to wait for more tragedies before we take action.

Before we get caught up in the debate about the figures relating to my bill, it might be worth noting some other figures. The Scottish Executive report, "Fire: Raising the Standard" stated that the average cost of a dwelling fire in Scotland in 2000 was reported to be £17,200. In 2001, there were 8,934 dwelling fires, which adds up to a total cost to Scotland of £151 million.

As well as property costs and costs to the fire service, costs also arise in respect of injuries sustained from fire. In 2000, the then Department for Transport, Local Government and the Regions calculated the cost-benefit value and savings that would have been made if a fire incident had not occurred. It was calculated that the costs of the injuries were as follows: a minor injury was estimated to cost £9,920; a serious injury to cost £128,650; and a death to cost £1.145 million. Using those figures, we can say that the 88 dwelling fire deaths in Scotland in 2001 cost the country more than £100 million. In addition to that, there were 1,799 non-fatal fire casualties in 2001. If all of those were minor cases, that would cost a further £18 million and if only a quarter were serious injuries, the cost would rise by a further £70 million.

The Convener: Before I invite members to ask questions, I remind them that the policy issues to do with the bill will be dealt with by the Communities Committee, which is the lead committee. We are concerned in particular with the financial memorandum at this point.

Kate Maclean: Michael Matheson said that he did not want to get caught up in the figures, but that is what we do in the Finance Committee. I find the policy issues interesting and I am in favour of having sprinklers in various types of accommodation, although the bill does not go far enough. However, we in the Finance Committee must make decisions based on the information that we have in the financial memorandum. There is a huge discrepancy between the figures that Michael Matheson has provided and those that were bandied about last week. The Finance Committee has asked for written clarification of those figures so that they are robust rather than being plucked out of the air.

The statistics that Michael Matheson cited a minute ago were interesting. Do they apply to housing for the elderly and to HMOs or are they Scotland-wide figures? If they are Scotland-wide figures, would Michael Matheson be able to disaggregate them for us to give us more information?

Michael Matheson: They are Scotland-wide figures. As I said before, we got caught up in a debate over the figures. The fire statistics do not break down to cover specific types of property; however, they give a general picture of HMOs

covering a range of different types of properties, which are outlined in the financial memorandum and the policy memorandum. The statistics do not break down to cover sheltered housing complexes and other properties, for example.

Kate Maclean: If the statistics are not disaggregated, I find it difficult to understand how they are useful in demonstrating the cost-effectiveness of the bill and the costs for the types of premises that the bill covers.

Michael Matheson: I have some statistics here: the number of deaths that occurred in Scotland as a result of fire in 2002-03 was 84 and 30 of those individuals were over the age of 60. Some 39 of the fires were in flats, which tend to be the HMOs that I target. The figures do not break down any further; they are national fire statistics.

Kate Maclean: Being over 60 nowadays does not necessarily mean that one will be in sheltered housing. Sheltered housing is now for elderly people who are frail. It is unlikely that one would be in sheltered housing at 60.

I represent an area with a lot of flats, but many of them are not HMOs. Before the committee meets again, is there any way that we would be able to get slightly more—

Michael Matheson: The problem is that the national statistics do not break down further. All I can do is to refer you to the 1998 report that was published by the Department of the Environment, Transport and the Regions. That report specifically considered HMO properties and identified them as being a group of properties that are particularly vulnerable to fire because of the number of occupants who live in them. That research demonstrates that HMOs should be targeted when fire raising is being addressed.

A report commissioned by the Office of the Deputy Prime Minister was published last year after taking two years to complete. One of its key findings was that there is a cost benefit to installing sprinkler systems in properties that are occupied by the elderly because of the potential difficulties that they would have in evacuating the property if there were a fire.

Although the statistics in those reports do not break down in detail the fires that occurred in such establishments, they are two pieces of research that demonstrate that those two groups must be targeted when we try to improve fire safety.

Kate Maclean: I have one more question, although it strays slightly from the subject. If that is the case, why does the bill not cover residential and nursing homes for the elderly?

Michael Matheson: My original proposal was to include care home facilities. During the consultation, I received evidence from care homes that, because the new care regulations were

kicking in, they were concerned about being overburdened with new regulation. At that point, they did not think that it would be appropriate to include care homes in the bill. On the basis of the evidence that I received during the consultation, I did not include care homes in the bill right at the start. However, the bill is drafted so that, under a schedule, care homes can easily be introduced through a ministerial order if that is thought appropriate in future. The move was primarily to prevent overburdening the care home sector, while ensuring that if ministers want to include care homes, they will have an easy way in which to do so.

The Convener: Do we need to have a legislative mechanism in the bill to cover care homes or could the issue be dealt with through the care home standards under the Regulation of Care (Scotland) Act 2001?

Michael Matheson: I am not too sure about the care home standards, but the fire safety regulations that, in my understanding, apply to care home establishments are based on the building control regulations with which a facility must comply when it seeks registration as a care home.

Dr Murray: Everybody is sympathetic to attempts to improve community safety and to protect firefighters and others who have to cope with fires. You gave us a lot of statistics on casualties and deaths and on the savings that might arise from the bill. However, we have heard evidence that smoke detectors might be more effective than sprinklers because they give people early warning of fires. A couple of weeks ago, we received evidence about mist systems, which might be easier to install in certain types of properties. Obviously, a different type of system would have financial implications. Why do you feel that the sprinkler system is the most appropriate method of protection and the one that the bill should cover?

Michael Matheson: The provisions for smoke detectors were introduced nearly 15 years ago. Sadly, in that period, the rate of fire deaths in Scotland has not dropped significantly. The fire service has carried out research that demonstrates that in around 60 per cent of the fires that it attends, smoke detectors are in place but do not operate. I will check that figure for the committee. Smoke detectors do not provide the level of safety that the fire service believes sprinkler systems would provide. When a smoke alarm goes off, the individual involved still has to be able to evacuate the premises. If the person has difficulty evacuating, their safety will be compromised.

The Scottish Association of Landlords raised the issue of mist systems with the committee. From a technical point of view, mist systems are

somewhat different from sprinkler systems. First, as there are no European or British standards for mist systems, they have not been through a rigorous process to ensure that they are effective. Secondly, a mist system operates from a water tank, which must provide a water supply for around four minutes. A sprinkler system operates from the water mains system and must be able to supply water continuously.

After it was suggested to the committee that mist systems are cheaper and easier to install, I contacted one of the biggest fire safety companies in Scotland, which installs mist systems. That company said that mist systems are not simple, and certainly not cheaper, to install and that it is not inclined to use mist systems because no national or international standards exist for them. Sprinkler systems have had European standards for some time and a draft British standard, which arose from the Office of the Deputy Prime Minister's research on the effectiveness of sprinkler systems, is due to be finalised this year. The international experience is that sprinkler systems reduce fire death rates or increase survival rates in fires by up to 85 per cent. Detailed research has been carried out into sprinkler systems, but not into mist systems. Given that mist systems require a tank, they can involve more work than systems that simply run off the mains.

Dr Murray: That is helpful. You mentioned the sad fact that smoke detectors in properties often do not work and do not provide protection. Does the research that you have undertaken show that sprinkler systems are fail-safe? Are they likely always to work or could the same situation arise?

11:30

Michael Matheson: One of the biggest difficulties that I have had with the bill is people's perception of sprinklers. I am sure that we have all walked through shopping centres in which we have seen sprinkler heads. Residential sprinkler systems are nothing like those systems—they are very sophisticated and have been on the go for a long time. The agenda began to be pursued in America in the 1980s and in Canada in the 1970s and technology has moved on considerably. Sprinklers are extremely safe and the failure rate is very low. International standards now exist and, because of international experience, we know with confidence that sprinklers work effectively. Research by the Office of the Deputy Prime Minister, involving a range of fire tests, showed that sprinklers tackle and control fires effectively.

You asked earlier about alarms. Installation of a sprinkler system does not mean that a smoke alarm is not installed, because having a smoke alarm remains an early way to be informed of a fire in the house. A smoke detector might be

activated before a sprinkler system if the ambient temperature around the sprinkler head is not high enough. Smoke alarms still have to be fitted in a property that has a sprinkler system. The difference is that, when a sprinkler system is activated, it starts to fight the fire right away. A smoke detector only alerts people to the occurrence of a fire.

John Swinburne: I have normally found knee-jerk reactions in politics, but Michael Matheson was taking action before everybody else had their knee-jerk reactions to the latest deaths in Uddingston. He is to be congratulated on his foresight.

I worry about whether implementing the bill would raise costs for residents of residential homes. Would the cost be inflicted on the older person whose life the sprinkler system could save? Would those older people pay directly for the system or would the Executive pick up most of the cost?

Michael Matheson: The bill could make provision in relation to care home facilities, but it does not do that. However, I can answer your question in relation to sheltered housing complexes, if that would help. The bill provides for the installation of sprinkler systems in sheltered housing complexes only when a building has been converted for sheltered housing or is new build, because that is the most cost-effective way of achieving the aim.

Last week, I visited several sheltered housing establishments, some of which have been on the go for some 30 years and one of which was being built. All those establishments were owned by different councils. While renovating and building the properties, the councils are taking the opportunity to install sprinkler systems. At an establishment in East Kilbride that South Lanarkshire Council is building, the cost of installing the sprinkler system is working out at about £600 per room. Such costs are being covered by the overall building or renovation costs that are being incurred, so they are not being passed on directly to residents. The councils are providing residents with greater safety and security by installing sprinkler systems.

The Convener: The definition of sheltered housing is crucial to identifying the bill's costs. Is your definition in line with that in the Building (Scotland) Act 2003?

Michael Matheson: Building regulations contain no definition of sheltered housing. I noticed that evidence to the committee suggested that the definition was too wide. The definition in the bill comes from the Title Conditions (Scotland) Act 2003. My bill would put that definition in building standards. To tighten the wording, I added

paragraph (b) to the definition in section 15 of the bill, to ensure that the definition does not include retirement homes that are in the private sector or were built by a private company. The definition covers only sheltered housing complexes. I have taken the Executive's definition of retirement or sheltered housing. My bill would for the first time put a definition in the building regulations.

Jeremy Purvis: I assume that you have read the *Official Report* of our earlier evidence session on the bill, during which Fergus Ewing asked John Blackwood of the Scottish Association of Landlords whether he would be prepared to meet you, because views still diverge on installation costs. Has that meeting happened?

Michael Matheson: No. I must meet several organisations as a result of the evidence that they have submitted. The Scottish Association of Landlords is one such organisation; another is the Convention of Scottish Local Authorities. The only meeting that is currently organised is with the Scottish Federation of Housing Associations.

Jeremy Purvis: Mr Blackwood said that the Scottish Association of Landlords' figure of between £5,000 and £7,000 was based on

"actual costs for systems that have already been installed, albeit in Edinburgh."—[*Official Report, Finance Committee*, 10 February 2004; c 1009.]

That is still quite divergent from the information that you provide. I hope that you can meet the association and report back to us whether there is common ground between you—I am not sure what the timing will be for concluding our report.

Michael Matheson: May I clarify some of the confusion around the issue? The financial memorandum that I provided to the committee uses a figure of £1,500, which was provided to me by the technical committee of the Residential Sprinkler Association, the governing body for installers of such systems—it is now called the Fire Sprinkler Association. The figure represents the industry's rough estimate of the cost of a retrofit installation in a two-bedroom property. The Office of the Deputy Prime Minister's report stated that the figure is roughly between £1,000 and £2,000—that is a baseline, average figure.

I cannot tell you how many jobs will cost £5,000—that will depend on the size of the property and the technical issues that might have to be addressed. However, I know that the baseline figure is between £1,000 and £2,000—roughly £1,500—and I can use that figure to estimate the cost for HMOs in Scotland. You cannot take two quotations and say, "This is the average cost." Research from Westminster demonstrates that that is not the case. As I mention in the financial memorandum, there will inevitably be differences in cost, which will depend

on a property's size and number of rooms. It is impossible to predict how many houses will incur costs of £3,000, £4,000 or £5,000.

Jeremy Purvis: The difficulty is that witnesses provided evidence on the record—albeit anecdotal evidence of a couple of examples, which came from phone calls to a number of suppliers—of the cost of actual installations, rather than the anticipated costs that have been put forward by whichever source. It would be useful—and the committee would appreciate it—if you could meet the Scottish Association of Landlords and try to reach an agreement.

Michael Matheson: I am more than happy to do that. I can also provide the committee with a table of figures that the researchers at the ODPM have identified as the average costs for a range of properties, up to 12-bed care home facilities. Those figures might give the committee a better idea of the costs and they confirm my figure, as they estimate the cost to be between £1,000 and £2,000.

Jeremy Purvis: In his evidence, Mr Blackwood said that the Scottish Association of Landlords was not in favour of a blanket licensing condition. I asked him whether any local authorities had imposed such a condition on HMOs under their own aegis. He said:

"That has certainly happened in Edinburgh ... 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."—[*Official Report, Finance Committee*, 10 February 2004; c 1010-11.]

Rather than add to the statute book, do you agree that one approach would be to lobby local authorities to look at their licensing regimes?

Michael Matheson: My understanding is that, in applying to a local authority for a licence for an HMO, owners must comply with certain fire regulations and that the local authority will take the advice of the local fire service. On the Edinburgh examples that were cited, I understand that, in order for the facilities to comply with the fire regulations and depending on the number of rooms in the property, fire escapes or stairwells of the American type would have to be installed, probably at the back of the building, in order for people to be able to escape.

Increasingly, local authorities are saying that such stipulations must be adhered to. However, they are prepared to make a trade-off: if a sprinkler system is installed, the authorities will not force the owner then to install such a staircase. Rather than pointing to stipulations under the licence, authorities are telling people that they must comply with fire regulations, which means having to install a staircase. However, if the owner installs a sprinkler system, the authorities will be

prepared to relax the regulations, because the sprinkler system would provide what the authorities believe to be the necessary level of safety.

It has been pointed out to me that, in some local authorities, an HMO comprising seven or eight rooms can receive a licence, even if it does not have sufficient fire safety provision by way of an escape ladder or extra staircase. The owner might receive a licence allowing them to use only half the building—they may be allowed to use only three or four of the rooms. It is in the interests of the owner to determine what they need to do in order to use the rest of the property. They are being told that, if they do not put in a stairwell, a sprinkler system would cover the necessary safety provisions.

Rather than focusing on a stipulation in the licence as such, local authorities are increasingly prepared to relax the building regulations if owners are prepared to install sprinkler systems. That is happening not just in HMOs, but in private properties, including complexes such as retirement flats. The problem is that those properties are particularly vulnerable in the event of a fire, so the question is about driving up the standards in such properties, many of which are occupied by vulnerable residents. The best way of doing that, I believe, is through a change in the building regulations.

Jeremy Purvis: Those regulations satisfy the fire brigades and you have recognised that it would not be desirable to overburden agencies with additional regulations, yet that is one of the criticisms that people who have given evidence to us have made about your bill.

Michael Matheson: One of the fire service's main concerns on inspecting HMOs is that it believes that, even when those buildings comply with the fire regulations, they would be safer if they had a sprinkler system installed. However, because there are no building regulations through which that can be stipulated, the fire service feels compromised.

The Convener: We are drifting away from finance issues here.

Jeremy Purvis: Well, regulations are—

The Convener: I am anxious to get us back on to financial matters. I call Jim Mather.

Jim Mather: You mentioned the United States and Canada, Michael. Do you have evidence from other jurisdictions that suggests that the cost of installing fire sprinklers will reduce over time with increased demand?

Michael Matheson: A number of European countries provide for residential fire sprinklers. The most recent jurisdiction to come on board was the

Isle of Man, which last January passed legislation for the installation of sprinklers in a range of properties—new build and retrofits. The legislation comes into force this March.

The country with the greatest experience in this regard is probably America and the place that has been the real trail-blazer is Scottsdale in Arizona. Scottsdale introduced a local ordinance in 1986 for the installation of residential fire sprinklers. It carried out a 10-year review of the policy in 1996. That evaluation showed that, over the 10 years, the cost of installing sprinklers had dropped by more than 50 per cent. The main reason for that was that a market had developed, with more companies installing sprinklers and more competition. The costs of fires—the costs incurred by damage to property and the costs to the fire service—had also decreased. A whole range of financial gains were made as a result of the measures. The costs dropped fairly dramatically. The main cost savings were probably made in the first two or three years, when the figures dropped by about 40 per cent.

Jim Mather: I am keen to develop that point. I refer to costs both to the public purse and to landlords, who are showing resistance to the proposal. Do you have a real feel for the cost alleviation on the fire service, the police and the health service if sprinklers are installed and are preventing fires? Clearly, there is a spin-off cost to those services. Both the police and the fire service turn out at fires. We must also take into account the cost of care of those who have been injured in fires.

11:45

Michael Matheson: Again, I refer to the evidence from Scottsdale in Arizona, where significant savings were made in the fire service, the health service and insurance as a result of the installation of sprinklers. Almost 40 per cent of the properties in Arizona now have sprinkler systems and it has been possible to make significant savings. I understand that that is one of the main reasons why the policy was introduced in the Isle of Man. From international experience, there is clear evidence that cost savings can be made. In my opening comments, I illustrated the costs of regular fire deaths and injuries.

I will give the committee a simple example. South Ayrshire Council has four blocks of flats that it uses for the elderly. Over the past two years, the council has adapted and renovated those flats. After it had completed the renovation of the first block, an elderly resident went out one evening for a few pints. When he came back in, he put on the chip pan and fell asleep. The pan ignited and the sprinkler system in the kitchen came on. The first that the man knew about that was when the fire

service arrived at his door. The fire had been extinguished. It cost the council £300 to tidy up the kitchen and the man was back in his house within 48 hours.

There is a cost to the public purse and to local authorities when properties are damaged as a result of fire. Similarly, if a fire takes place in a housing association property, the housing association must meet the cost of repairing the damage. For a little investment—nowadays, the cost of sprinkler systems is almost the same as that of carpets—we can prevent that type of damage from occurring.

Jim Mather: I return to the specifics of landlords' resistance to the proposal. Do you have any specific data on decreases in insurance costs, the alleviation of repair bills and the augmentation of property value when sprinklers are installed?

Michael Matheson: In the evidence that we have received, there seem to be conflicting views. One party was told that insurance costs might increase because of the potential for water damage. Others were told by their insurance brokers that costs were broadly neutral. The position in the UK is that insurance companies are broadly neutral on the issue—largely because there is not a critical mass that would allow them to be prepared to give a discount for sprinklers.

As I said, America has perhaps the greatest experience of extensive residential sprinkler systems. On average, insurance companies in America give people who have a full sprinkler system in their property a discount in the region of 15 per cent on their home and buildings insurance. For some insurance companies the figure rises as high as 20 per cent, whereas for others it goes down to less than 10 per cent. Such discounts are offered in America because there is now a market in this area. It is similar to the way in which people's car insurance costs may be reduced if they have a driveway. Insurance companies are trying to encourage people to install sprinkler systems and are discounting their insurance as a result.

I have some figures from Scottsdale, Arizona. Thirty-nine per cent of properties had sprinklers installed within 10 years. The average money loss in the event of a fire when a sprinkler was present was \$1,544. The average money loss when there was a fire and no sprinkler was present was more than \$11,600. That is almost a tenfold increase.

Jim Mather: Did the installation of sprinkler systems have a tangible impact on property retail values?

The Convener: To be fair, that is not really an issue for the committee. We are concerned with the impact of the bill on the Scottish Executive budget.

Jim Mather: Touché. I accept that.

Fergus Ewing: What about the impact on landlords?

The Convener: That is a matter for them, rather than for us.

Fergus Ewing: This is the first member's bill that the Finance Committee has had to consider. There seems to be a missing link; we have not had any figures from the Executive, despite the fact that Michael Matheson says that the Deputy Prime Minister's office has produced figures. Have you had any response from the Executive? What is the procedure? When do you expect to get a response? Some of our difficulties should be dealt with in part by a contribution from the Executive, which—so far—is lacking.

Michael Matheson: I have had four meetings with different ministers to discuss my bill. That goes back to September 2001. The most recent of those meetings was with Mary Mulligan. At that point, no matters relating to finance were discussed. The Executive has not contacted me since that meeting, which was approximately two months ago.

The Convener: I have a question for David Cullum, because he deals with a lot of such bills. Is that the normal procedural route?

David Cullum (Scottish Parliament Directorate of Clerking and Reporting): The Executive makes a submission to the lead committee in relation to all members' bills. The Communities Committee has called for evidence. I expect the Executive to have submitted, or to submit, evidence to that committee. Off the top of my head, I think that the deadline for giving evidence to the Communities Committee is the end of this week.

The Convener: There could be an issue there. The Executive might well have policy issues with the bill. Equally, it might have issues with the financial aspects of its implementation. The Finance Committee is being asked to produce a report on the financial consequences of the bill without necessarily having all the evidence that it needs, as Fergus Ewing pointed out. There is a procedural difficulty that I can take up outside the committee, but it is a problem for the committee.

Kate Maclean: In the case of local authorities, private sheltered housing providers or landlords of houses in multiple occupation, it would be the rent payer who would pay through councils' housing revenue accounts, housing associations or—to a certain extent—housing benefit. Because the money would not be coming from the council tax, the Scottish Executive would not be paying, therefore I am not sure that the Scottish Executive has any involvement in the finance.

Fergus Ewing is shaking his head. It is obvious that he knows better than me, so perhaps he can answer my question.

The Convener: You might well be right.

Kate Maclean: Housing finance is ring fenced and it comes from a housing revenue account, which is paid for by rents. That is my point. Is the Scottish Executive making any other financial input?

The Convener: Kate Maclean's point is correct in the context of how the sprinklers might be paid for. Looking at COSLA's evidence, I suspect that the Executive would have some interest in the mechanisms through which legislation might be proposed in relation to what Michael Matheson is asking for and what COSLA is suggesting.

One of the problems that is being highlighted is how to deal with a member's bill. We want to deal properly and comprehensively with all the legislation that comes before us. If our locus is the consideration of the financial figure, we want to have the best possible information so that we can do our job properly. I am trying to focus on that point.

Mr Brocklebank: Ultimately, someone will have to pay, whether it is the public sector or the private sector. Someone will have to pick up the tab. A couple of weeks ago, the landlords said that the costs had been massively underestimated. COSLA's report is equally adamant that extending the requirements could have "enormous cost implications"; somebody will have to pay for that.

I was interested in what you said about Scottsdale in Arizona, but I am not sure that it helps us too much in a Scottish context. I have not been to Scottsdale, Arizona, but I know that many properties in the United States are wooden-framed properties into which it is relatively easy to fit equipment. I am thinking about old properties in places such as Edinburgh, Dundee and elsewhere in Scotland, where there are massively different tenemented properties. Surely, with such properties, it will be infinitely more expensive for whoever has to pay, whether it is the private sector or the public sector. Both sides are saying that.

The Finance Committee is responsible for getting realistic figures, so that we can balance against those figures the telling evidence that you gave us on how much fire is costing. Are we being asked to sign up for something, the cost of which we have absolutely no idea about? That is the worry.

Michael Matheson: We have been trying to clarify COSLA's evidence—particularly the cost aspects—since it was submitted to the committee, but we have been unable to do so. The City of

Edinburgh Council predicted that there would be 3,500 renewals by the end of 2004. However, according to the Scottish Executive's statistics on HMOs—the most recent of which are from 31 March 2003, and which I have with me—only 2,859 applications were received for the whole of Scotland, so I do not know where the council gets its figure of 3,500 for renewals that are due this year.

Dundee City Council referred to £1.35 million, but there is nothing to explain how the council arrived at that figure or what the figure is based upon. The council expects to get some type of grant assistance, which would mean that its contribution would be £270,000. Again, I do not know where that figure comes from, which is why I have tried to contact COSLA to find out.

South Lanarkshire Council says that the outturn figure to build protection sprinkler systems is £1,500 per bedroom. On Wednesday, I visited a sheltered housing complex that South Lanarkshire is building and found that the cost is £600 per bedroom. That council also states that the cost of building personal protection sprinkler systems is £1,750. The council seems to be referring to two different types of sprinkler systems, but there is only one type.

I do not know where the figures come from or what they are based on.

Mr Brocklebank: Presumably they are based on existing properties. The figures for new build would be much cheaper. If you are going into—

Michael Matheson: But that is not what the submission says.

Mr Brocklebank: I do not know whether COSLA identifies—

Michael Matheson: The submission states:

“for personal protection sprinkler systems as £1750 per occupant.”

Mr Brocklebank: Yes, but it does not say whether that figure applies to new build or old. It states:

“outturn figures for building protection sprinkler systems as £1500 per bedroom”.

That does not necessarily mean new build.

Michael Matheson: There is nothing to explain how those figures were arrived at. That is the issue more than anything. The figures from the City of Edinburgh Council, Dundee City Council and South Lanarkshire Council may be correct, but I do not know how the councils arrived at them. I have serious reservations about the figures, given my own experience.

The Convener: Although you and COSLA may be coming at the matter from different directions,

you both agree on one thing, which is that we need more robust figures on the effect of adopting your policy framework. The risk is that we say, “We don't know, because we don't have the information about the implications,” that the bill goes forward, and that judgments are then made about whether the bill is acceptable on the basis of information that is not resolved. That would be unsatisfactory from our point of view and from your point of view. We need hard evidence.

Michael Matheson: It is important to be sure that COSLA's figures are robust. I have serious reservations about the figures. The figure of 3,500 renewals for Edinburgh was submitted, but the Scottish Executive's figures show that the City of Edinburgh Council granted 247 licences at the beginning of the scheme in 2000, and at the end of March 2002 I think that the total was less than 1,000. There are 1,000 cases outstanding, but 247 plus 119 and the 1,000 pending cases does not come to 3,500. I do not know where the idea of there being 3,500 renewals comes from.

12:00

The Convener: It is obvious that we require a reconciliation of the information so that we can identify the true situation. We must ask the Executive whether it can shed any light on the cost issues.

Fergus Ewing: My understanding is that before you appeared here today, you underwent a substantial consultation process. We have heard evidence from the Scottish Federation of Housing Associations and Bield Housing Association. Did they take the opportunity to make a submission to the consultation? When did the process begin and how did it continue?

Michael Matheson: I started the consultation in September 2001 and it was completed at the end of December 2001, after three months. The bill would have been drafted much earlier had it not been for the Building (Scotland) Act 2003, which meant that we had in effect to redraft the bill as it stood at the time.

Both the Scottish Federation of Housing Associations and Bield Housing Association were invited to submit evidence to my consultation. I noticed that they said in evidence to the committee that they had submitted evidence to the consultation, but neither of them did so.

Fergus Ewing: Perhaps if they had submitted evidence earlier, we might be further forward with some of the issues. The SFHA has submitted further evidence that RSLs own just less than 600 houses in multiple occupation and that costs will be associated with that. What is your comment on that figure and have you made allowances for it in your financial memorandum?

Michael Matheson: We checked with the Scottish Executive and Communities Scotland whether RSLs had HMOs that would be affected by my bill and found that they did not. I am not too sure where the figure of 600 comes from. It may be that housing associations have sheltered housing complexes, which are provided on an HMO basis, hostels for the homeless or women's refuges, which in any case are exempt from my bill. The SFHA appears to have got the figure from Communities Scotland, but we sought figures from Communities Scotland on the HMOs that would be covered by my bill and, at that point, RSLs did not have such properties.

Fergus Ewing: That is helpful. It seems to me that some of those who submitted evidence to the committee might have misunderstood the scope and ambit of your bill. It might be helpful if you would spell out which premises would be required to have sprinklers fitted under your bill and when.

Michael Matheson: The 600 figure from the SFHA is most likely correct, but I am not too sure whether it includes the groups that are exempt under my bill; I suspect that it does. My bill will cover two types of properties, one of which is HMOs. When licence holders apply to renew their licence, their properties will have to comply with the provisions of my bill. The other type of property is sheltered housing complexes. Only complexes that have been converted for the purpose of sheltered housing or are new builds will be covered. The bill will not apply retrospectively.

Fergus Ewing: That is helpful as well. We have had further evidence from COSLA, of which I think you are aware, since our most recent meeting. That evidence states that Dundee City Council estimates that the costs to HMOs in its area alone would be £1.35 million. Will you comment on the figures that COSLA has provided in the past few days? Do you believe that they display a correct understanding of your bill?

Michael Matheson: I am not sure where the figure from Dundee City Council comes from, but it is the council's estimated cost for the HMOs in its area. The council says that the cost would be £1.35 million. According to the Scottish Executive's figures for the number of HMOs, Dundee City Council has only 150 licensed HMOs with 100 licences pending. I have absolutely no idea where its figure comes from. It would be helpful to me if the committee were to pursue COSLA to try to find out how it comes up with such figures. The credibility of the figures depends on how they have been arrived at.

Fergus Ewing: Another matter that has not yet been raised is that, in the background to your financial memorandum, you describe the annual maintenance cost as £35 a year per property. That is nugatory. However, in the last evidence session,

that figure was described by the landlord witnesses as unrealistic. Will you comment on that?

Michael Matheson: The average maintenance cost of £35 was provided by the body that represents the fire sprinkler companies—the Fire Sprinkler Association. It is a broad figure of what it should cost to inspect a sprinkler system in an average two-bedroom property on an annual basis. There seems to be a myth about what is involved in inspecting such a system. Inspection involves checking that the caps that hold the sprinkler head to the ceiling have not been painted over and that the water meter is set to the right pressure for the system. It takes less than half an hour. The last time that I called out a plumber, I was not charged £70 an hour for the job; it depends where one stays, of course—other members might stay in posh areas. Just last week, I phoned a company to check how much it would charge and it gave me the figure of about £35, or at most, £50.

Fergus Ewing: A relevant point that has not yet been made is that, under the Housing (Scotland) Act 1987, there is provision for the availability of grant aid to landlords who install a means of fire escape. The Executive has not told us, or you, how much money has been paid out each year in grant finance since 1987. We must find out that information and the Executive will have to tell us some time. However, is it your understanding that, in principle, less money will be needed if sprinklers are required to be installed—albeit in the restricted premises that are covered by your bill—and that that would be a cheaper method of Government intervention than providing grant money for creating fire escapes?

Michael Matheson: I understand that the 1987 act states that an HMO owner might have to provide a fire escape in the form of a staircase at the back of the property, and that the act allows for owners to apply for financial support to do so. I have no idea how well that provision is used—it would be helpful if the Executive could inform us how much money it allows for such provision.

I was speaking to an HMO owner a couple of weeks ago. He had a three-up property in which he had to install a stairwell at the back. He was informed that if he installed a sprinkler system, he would not have to install the stairwell and he saved himself more than £20,000 by doing so. The cost saving is significant if owners install a sprinkler system instead of a stairwell.

Fergus Ewing: A huge amount of work and research has been done to produce the bill and the bill is a tribute to your work and that of Mr Cullum, Ms Dean and other staff.

Am I right in saying, however, that I was able to point out to you recently an area of research that has not been mentioned in your bill, namely research that was carried out by academics at Harvard University? The research sought to identify the most cost-effective method of Government intervention per life saved. The least effective method, at the cost of \$20 million per life saved, was found to be Government intervention in regulating benzene emissions at tyre manufacturing plants. The most effective method of saving lives, which cost zero dollars, was through the compulsory requirement to install fire sprinkler systems.

Michael Matheson: You are right. You brought that research to my attention; had I been aware of it earlier, I would have included it in the policy memorandum.

Jeremy Purvis: At our previous meeting, Alister McDonald said, on Michael Matheson's consultation:

"I understand that the SFHA responded and that Bield Housing Association contributed to that response."

He added a caveat:

"Of course, the proposal then covered all dwellings and not only sheltered housing and HMOs."—[*Official Report, Finance Committee*, 10 February 2004; c 1006.]

However, you say that you did not receive such a response to the consultation.

Michael Matheson: Both those organisations were sent a copy of my consultation document and were invited to submit evidence to the consultation. However, neither of them did so.

Jeremy Purvis: Okay.

When the Executive brings bills before the committee, we are, rightly, critical if it has not consulted proactively on the financial memorandum. In this case, there has been no proactive consultation with the Convention of Scottish Local Authorities or the Scottish Association of Landlords. I hope that the situation will be rectified and I appreciate that Michael Matheson is actively seeking a meeting with those bodies, which I hope will take place soon. I also note that he will have a meeting in early March with the Scottish Federation of Housing Associations. It would be useful to get conclusions from those meetings in advance of the Finance Committee's report, because otherwise it will be limited.

On a procedural matter, convener, if we are to be faced with further members' bills, it would be useful to know exactly what the role of the Executive and the Finance Committee should be. If we are approaching Michael Matheson's bill as we would approach an Executive bill, then it is up to us to call for evidence. It is up to us to judge

whether it is appropriate for the Executive to provide evidence or whether we should ask for evidence first, given that some members' bills might not have a cost to the public purse. It would be useful to have guidance on that matter for the future.

The Convener: Perhaps Michael Matheson can answer the bit of Jeremy Purvis's question that was directed at him; then I will try to deal with the second part of the question.

Michael Matheson: As I said already, I am more than happy to meet COSLA and the SAL. Since COSLA submitted its late evidence to the committee, I have been trying to meet it to clarify its figures. However, to date, we have had no joy in obtaining the details that we require. I point out that COSLA made a submission to my consultation exercise.

I understand what Jeremy Purvis says about consulting on financial memoranda. However, I am not conscious of the Executive consulting on financial memoranda. Perhaps it should do so. Jeremy Purvis should also bear it in mind that, as a member who is promoting a member's bill, I carried out a three-month consultation, during which organisations had an opportunity to provide input. It is difficult for me to enter into a further consultation on the financial memorandum once the bill has been drafted. I take note of what Jeremy Purvis said, but he must be realistic and consider the practicalities for a member who is pursuing a member's bill.

Jeremy Purvis: I accept that entirely and I accept also the burden that a member's bill puts on Michael Matheson, who has other work to do. However, for the committee to do its job of scrutiny as part of the parliamentary process, we must be fair to any bill that is presented to us, whether it is an Executive bill or a member's bill.

Michael Matheson: In the evidence, no one has pointed out that any of the figures in my financial memorandum are incorrect or have been wrongly calculated. Some of the figures that were provided in evidence to the committee, both written and oral, are highly questionable. The evidence does not say how the witnesses arrived at the figures that were given. However, that is an issue for the committee to pursue.

The Convener: Right. I thank Michael Matheson, David Cullum and Zoé Dean for coming before the committee today. While they are with us, having heard the evidence from Michael Matheson and the questions from committee, members, I have to say that I am a bit concerned about the procedural issues that pertain to the way in which we handle the bill.

I want to do two things. The first is to speak to the convener of the main subject committee that is

dealing with the bill. I want to identify some of its concerns and raise some of the issues that we have discussed today. The second is to reflect more generally on the issues that arise in relation to financial memoranda to members' bills and on our information requirements. Perhaps we can try to deal with those procedural issues as quickly as possible.

The clerks will have to prepare a report on the bill. In that context, we will have to seek other forms of evidence and we might need to take slightly longer to do so than we originally expected. We will need to satisfy ourselves more fully than we can at present about the information that we have. We might have to get back to Michael Matheson in writing to ask him questions to identify the mechanisms through which we can get a better sense of the financial implications of the bill.

Our job is not to decide whether the policy is good or bad but to focus on the financial implications of the bill. As far as that is concerned, I do not think that we are at a stage at which we could write a convincing report one way or the other. I think that we have to do a bit of work both on the general procedures and on specific aspects of the bill. Are members happy with that?

12:15

John Swinburne: I would be more than surprised if the Executive has not already looked into the financial aspects of the bill; if it has not done so, it is not doing its job. The Executive should have had the foresight to present us with the background work that it must have done if it is doing its job at all well. It is remiss of the Executive not to have done so. The convener will have to take up that point with the Executive.

The Convener: Sensitivities are involved in dealing with bills that are introduced by back-bench members. It is important to remember that members have their own positions. The bill is the member's bill—they introduce it and they have to be allowed to keep control of the exercise. However, before we make our report on bills, we have to be in a firmer position in relation to the financial implications than is the case with the bill that is before us today.

Following the discussions that I propose to have with the convener of the main subject committee that is dealing with the bill, I will come back to the committee next week with suggestions on how we can identify a way forward. I hope that that is acceptable to members. I am anxious not to lengthen the discussion much longer, but I will let Fergus Ewing in.

Fergus Ewing: How very kind. I agree with the basic premise that we need to take our time and

do our task properly. We cannot do that at the moment because we lack information, principally from the Scottish Executive. As Mr Cullum told us, the Executive's deadline for the submission of its memorandum is the end of this week. I presume that that will contain its estimate of financial costs.

I hope that at some stage we will have the opportunity to take oral evidence from the Executive. I also hope that we will be able to ask those who submitted evidence to the committee whether, in the light of the evidence—particularly the evidence that we heard today from Michael Matheson—they would like to reconsider some of their figures. I am thinking in particular of COSLA and other witnesses from whom we have heard.

When the convener brings back his proposals on how we take the matter forward, I hope that we will obtain from the Office of the Deputy Prime Minister the data and information that, by definition, it must have obtained in reaching its conclusion that the intervention would cost between £1,000 and £2,000 per case. I think that that was the figure that Mr Matheson mentioned. It seems absurd that we have not received from the Executive the information that is available from its counterparts in the UK Government. That is particularly so given the assurance that we are constantly given about partnership working between the Scottish Executive up here and the UK Government down there.

The Convener: Mr Matheson might be able to give us the information that he has in that respect.

Michael Matheson: The study that was published last year contained a lot of financial detail. I will pass on a copy of the cost table that was provided by the researchers who carried out the report.

The only thing that I would say to the committee is that, if it decides to take further evidence, I would like an opportunity to respond to it.

The Convener: I will need to identify the best way forward and discuss the matter with the committee soon.

Scottish Water

12:20

The Convener: The final item today concerns updates from the reporters and me on our investigation into Scottish Water. Following our investigation on 10 February, letters were sent to Allan Wilson and Scottish Water. They were circulated to members but have also been included in the papers before us today. Members will recall that we also wanted to write to the water industry commissioner. We have had a response from the water industry commissioner to my earlier letter of 13 January, which has been placed before the committee as it might have a bearing on the text of any letter that we want to send to him. The letter he sent us is fairly substantial, at least in terms of the number of pages. Given that many questions have been raised about end-year flexibility in the course of our investigation—particularly following the evidence that was given by Executive officials on 3 February—I asked our budget adviser to produce a paper to help our discussion. Members also have a copy of a letter that was sent to us by Andrew Scott of the water services unit.

As I said at our last meeting, the reporters and I agreed that it would not be possible to produce a further draft report for this meeting as we are still waiting for information, particularly on EYF. We have now been sent information from the Scottish Executive and we have got an awful lot of paper to get through and a lot of work to do in drawing the information together.

Since Arthur Midwinter has joined us, it might be useful to focus initially on his paper on EYF and allow members to seek clarification of his work.

Fergus Ewing: We have received a great deal of substantial and, at times, technical and complex evidence. The Executive waited until yesterday to send us yet more substantial information, despite the fact that the request for that information was made by Mr and Mrs Cuthbert last year.

I have read the responses but, given that we received only recently the information from the Executive, the water industry commissioner and Scottish Water—and also in light of the fact that the Executive's response does not appear to answer all the questions that were raised—I do not think that we can make much progress today. We will need an opportunity to study the papers and to give them the time and consideration that they deserve. We cannot do justice to them in the short time remaining to us today. It would be better if we could have a considered discussion of the papers at a later date, once we have studied them.

The Convener: The intention today was simply to provide an update to members and to report back the information that we have gathered. Clearly, we must work on the papers but I do not think that we are going to do that in the committee. The reporters and I must try to assimilate the information and come back to the committee with a revised draft report for the committee to consider.

Our budget adviser is here today to talk about the information that he has provided for us. If I am required to write to the WIC again because of any dissatisfaction on specific points, I could do so before the end of the week and ask for an early answer. However, we should now move towards concluding our exercise. We have done an awful lot of work on the water inquiry and there is an expectation that we will produce a report as quickly as possible. We should do so in time for the quality and standards III consultation exercise and the review of the charging framework.

Jeremy Purvis: I want to put on record my thanks for the work that the budget adviser has done in providing the reporters with background information, especially on EYF. Our inquiry has highlighted areas that will be in the final report.

I want to ask a question about borrowing and renewals and replacement, based on paragraph 3 in the adviser's paper, on the framework of financial control. The adviser asks us to get more information on the proposals for renewals and replacement, but has he seen the response that we have had from the WIC? If so, is he satisfied with it? I have had a quick look and it makes sense to me.

Professor Arthur Midwinter (Adviser): I have not seen the document from the WIC—apart from a brief glance after which I said to Susan Duffy, the clerk, that I did not think that it fell within my remit as most of the arguments are to do with the revenue cap. That does not come under public expenditure and is therefore not within my expertise on the Scottish budget. I would be happy to have a look if the committee wishes. Our initial reaction was that there may be one paragraph about the golden rule that may be important.

Before committee members go off to clear their thoughts on the evidence that they have gathered—including evidence from the Executive—I would like to raise one or two concerns. Some of the evidence overstates the role of the WIC and I have concerns about some of the interpretations that members have heard. The role of the WIC is mentioned in paragraph 3. Dr Scott implied that the WIC set the lower borrowing requirement. The phrase “the WIC set” appeared several times in evidence. The WIC does not set anything; the WIC recommends and advises. The minister can reject that advice. It is

important that members are clear about that. A number of documents refer to the WIC setting things.

The WIC responds to requests from the minister. The minister sets, with Parliament's approval, the public expenditure limits. The minister determines the size of the capital programme—the £2.7 billion or £2.8 billion. Obviously, all sorts of discussions will go on between the players, but the judgment is the minister's. In this case, the WIC was advised of the size of the capital programme before the strategic review. He knew that it was going to be £2.8 billion or £2.7 billion, which was the minister's decided figure after consultation. I now understand that the minister also decided what the split would be between new investment and renewals—the one third/two thirds split. From some of the discussions, I thought that that split was being presented as a technical judgment.

Obviously, there are elements of technical advice relating to that split but, if I may, I will quote from a paragraph in Allan Wilson's letter, which says:

"The division between replacement and new assets has to be assessed at a project level".

That is fine, but there are problems because not all projects are new or replacement—the definition acknowledges that some projects will both replace an item and enhance its performance. The committee should be clear that the split is a matter of judgment; it is not a precise measurement. The decision to make a one third/two thirds split is eventually taken by a minister. I understand that the WIC was also advised of that before the strategic review started.

12:30

Jeremy Purvis: I am loth to interrupt, but I wonder whether you have seen the letter from Allan Wilson. The e-mail copy does not have a date.

Professor Midwinter: That is the one that I am referring to. The little paragraph about the division between—

Jeremy Purvis: The paragraph that is entitled "Replacement vs. new assets"?

Professor Midwinter: Yes. Allan Wilson makes it clear that

"the current capital investment is broadly divided into one-third enhancement and two-thirds renewal".

All I want to say is that the committee should be clear that, as with all such matters, a political judgment was made—the minister determined that. All such matters, including depreciation assessments, in the end require a judgment, whether or not it is accurate; they are not a precise measurement.

Jeremy Purvis: Later on in the same sentence,

it is stated that the judgment in question

"is based on the best information available from Scottish Water's knowledge of their assets."

Professor Midwinter: Scottish Water gives the advice, but the minister takes the decision. It is important that the committee appreciates that he also sets the borrowing consents, because the language has inferred that the WIC sets them. The WIC advises. I have not examined the WIC's report, but we know from the debate that is recorded in today's newspapers that the WIC was not unduly happy about the extra £100 million that was allocated. That was a political decision. The initial decision was to allocate £500 million—£300 million plus the £200 million margin that was taken in 2001. I think that Andrew Scott mentioned that in evidence, in reply to a question from Jim Mather. He said that a further £100 million was recently added to the £300 million plus £200 million. That goes against the advice that the WIC has given in the strategic review. That is why his paper is quoted in the press today.

Much of the confusion arises on the difference between the public spending limits and the borrowing consents. There is an assumption that different people were taking the decision, but those decisions are all taken by ministers.

In 2001, the commissioning letter sought the WIC's advice on the revenue caps, on the scope for efficiency gains and on a prudent level of borrowing within the expenditure limits. The WIC was given a fairly clear brief on what to provide; he was also told to ensure that his advice would allow Scottish Water to improve its standards and quality. I hope that everyone is clear about the role. I just wanted to make clear where the buck stops.

There is a related point, on the evidence that the committee received on the commissioning letter. If I understand the criticism, it suggested two things—that there was a single control and that the department did not follow Treasury advice by setting an absolute limit. I want to put it on the record that I disagree with both those interpretations. The phrase "£299m plus profit" was interpreted as a single control figure. The decision to use profits in that way is a local decision for the Executive; it is not part of the framework of control. The Executive could have decided to use the money to pay off debts, for example. In addition, that part is not public expenditure, so I do not see how it can be a single control figure. We do not control profits—the control on profits is a minimum requirement to make 6 per cent. In 2002-03, the figure was more than 7 per cent, so more was available, but that did not affect the limit. We have a capital budget for new expenditure that has two funding streams—borrowing and the income from profits.

Secondly, there is the claim—it is recorded in Ross Burnside's note—that

"the Commissioning letter from Ross Finnie to the WIC wrongly states that the borrowing limit is an absolute limit at a time when HM Treasury guidance states that borrowing limits should not be treated in that way."

That statement is accurate as it refers to most departmental expenditure, but it is not accurate in the case of public corporations.

When Gordon Brown set up the new system, he was desperately keen to ensure that capital expenditure was protected. He made it clear that there had to be a single control figure for capital budgets. The spending review document of 2000 states:

"separating spending into a capital budget and a resource budget ... with limited flexibility ... ensures that essential capital investment is not squeezed out".

Clearly, there are two different controls. On page 146 of the statistical annex, which deals with resource accounting and budgeting, the non-self-financing public corporations' capital expenditure scores in departmental budgets—in departmental expenditure limits—rather than in accounting adjustments in annually managed expenditure, as the committee was told in evidence. That is precisely the approach that the Executive took in this case.

These are important issues and I want to ensure that members understand them fully.

The Convener: Those comments are helpful. As I indicated earlier, the reporters—perhaps with the help of Arthur Midwinter and the clerks—need to produce a revised draft of the report that they have written that takes into account the information that we have received. Ideally, a revised draft report would be available for consideration at our committee meeting on 9 March. That means that we would need to complete drafting by the preceding Friday—5 March. The issues with which we are dealing are so complex and there are so many different avenues that we could go down that we may not be able to deliver to that timetable. However, I am keen that we should try to do so. I am prepared to commit my time and effort to achieving that. I know that the reporters would like to get this matter sorted out. Is the committee happy to receive a revised draft report in the way that I have suggested? We could have the discussion to which Fergus Ewing referred in that context.

Jim Mather: I cannot speak on behalf of the committee, but a considerable number of issues have been raised by the WIC's letter and by his report, which is considerable. The report begs a number of questions that I would like to have clarified. I would also like further clarification of the response that we have received from the Scottish

Executive, which is a bit thin, as it focuses only on 2001-02 and totally ignores the period from 2003-04 to 2005-06.

I take the point that Arthur Midwinter made about the percentage, the breakdown and the ministerial decision regarding new assets and renewal. However, I would like further clarification of when the one third/two thirds division was established formally as the formula. It is quite different from the approach that was taken in the strategic review and from what happened in 2001-02 and 2002-03, although clearly convergence was taking place. There are a number of questions that need to be examined and a hell of a lot—excuse my French—to assimilate in a very short period, including some of the new information that Arthur Midwinter has provided verbally.

Professor Midwinter: In the latter years, the problem is certainly not a RAB problem. By that time, we had returned to a system of cash control. However, the division has not been one thirds/two thirds because of slippage in capital spending. More than 80 per cent of spending was on replacement.

Jim Mather: Eighty-six per cent.

Professor Midwinter: The cost of the programme is now set at £600 million and £1.2 billion. The strategic decision to set funding for new assets at £600 million was taken recently. However, I understand that the initial decision was taken in 2001.

Jim Mather: It is important for us to see the audit trail and the timing and evolution of decisions, so that we can get a firm handle on the matter. Has Scottish Water been managed to optimise the competitiveness of the Scottish economy? That is the nub of the issue. Could things have been done better and more effectively? Are we loading on to industry costs that could well have been alleviated and spread over a longer period of time?

The Convener: The nub of the issue, as I see it, is how we take the arrangements forward from here. That is probably the most immediate concern, but I recognise that there are some audit issues, which the Auditor General for Scotland and the Audit Committee may want to pursue in due course.

If members are agreeable to the approach that I have outlined—and getting it finished will put a lot of work on the reporters, on me and on the clerks—all the issues that Jim Mather has raised can be taken account of. We shall simply give it our best shot and try to produce something that we can kick around on 9 March.

Mr Brocklebank: I have battled for some weeks now to get my head around the submission by the

Cuthberts on whether or not two hundred and something million pounds was denied to Scottish Water and whose fault it was. I have asked frequently and have heard different views from different people about whether it is just an accounting trick or whether the figures are really relevant. Will the draft report that we are talking about address that once and for all and will we come out with our view as to what that was all about?

The Convener: We shall try to come out with our view on all those issues. If the issue is the £299 million, Arthur Midwinter may be able to give us an indication of where that figure comes from and whether it is valid.

Professor Midwinter: The £299 million is the Executive's figure—the RAB control figure—but confusion arises for everyone because, although there was a RAB system in operation, the cash control was always the crucial thing on the borrowing limit. In the final stages of the budget, the figures get converted to cash, so it is actually the lower borrowing consent that is the crucial thing. That is not the same as the £300 million, which includes an allowance for RAB. The argument, as I understand it, is that the difference between the Executive's figures and what were described as the WIC's figures was around £400 million over the four years. My view is that that is simply the difference between the two sets of decisions that were taken and that it is not an accounting error at all.

It is a bit difficult. I understand why people want to get to the bottom of it, but it is wholly impractical for the committee to try to reopen that decision, which was suggested. The decisions were taken in 2001 under an accounting regime that was dropped the following year. That accounting regime does not exist any more, and that is what the argument is about. Since then, there have been huge EYF transfers of more than £200 million, so the money that was called the buffer is not there any more. The budget has now been reduced to £680 million—it is no longer the £900 million that it was—and the Treasury has confirmed its view that there was no double counting. Therefore, although I understand the intellectual interest in the issue, I do not believe that, from a practical point of view, the committee should spend a lot of time on the matter when it is not going to get any practical result from such an exercise.

What is of concern to me is the rationale for the 100 per cent EYF being given to Scottish Water, given the past problems of underspend on the programme as a whole. In light of the strategy that has been decided, convener, you may be happy with the suggestion that we should pursue that issue. We already know that, in the first year, the expenditure was £51 million, so there has already

been £100 million slippage. Now, £80 million has been kept back as the buffer, which is quite small compared with the previous figure. What happens if there is slippage over the four years? Scottish Water has four-year EYF. What will happen if, at the end of the four years, there is £150 million slippage? I would be quite happy to try to resolve that at official level and just to feed a note in, if members are happy with that. You may feel that you need a formal response but, given the timetable, I would probably get the answer quicker sitting round a table with the officials.

12:45

The Convener: It would certainly be helpful to get whatever information we can.

To pick up on Ted Brocklebank's point, I do not think that the committee will be able to answer every question that we could possibly ask. That is just not feasible, but our investigation has already triggered off some significant changes. The fact that there is now going to be a review of the framework of charges is a product of the work that we have already done. What we need to do is to use our report to highlight those issues where we feel there is some concern or controversy, to identify what we have found so far and to try to point to questions that still need to be resolved. I do not think that we can package it up completely with a bow, but we can give it our best shot and try to get the understanding that we need. We will, I think, deliver greater transparency and also ask for there to be greater transparency in future. That is certainly the substance of the discussions that have taken place among the reporters.

Jim Mather: In order to make tidy that great plethora of data, to pull things together and to get some momentum so that Jeremy Purvis and I can even aspire to giving a clean pass back to the committee and beyond, would it not make sense for us to try to allocate a substantial chunk of time—perhaps on Friday 5 March—to breaking the back of the issue, rather than trying to do it in hurried, ad hoc meetings?

The Convener: The three of us can have a meeting this afternoon and work out our timescale for producing the report. That is really a matter for us. Our commitment to the committee is to try to deliver something to the clerks by 5 March so that it can then come before the committee. Are members content with that approach?

Members indicated agreement.

The Convener: I remind members that we are meeting on Thursday from 12.45 until 2.15 to discuss the latest monthly report on the Holyrood project. The monthly report will be available to members at the close of this meeting and will be released to the press thereafter.

Meeting closed at 12:47.

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