

FINANCE COMMITTEE

Tuesday 14 September 2004

Session 2

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FINANCE COMMITTEE

22nd 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:

Margo MacDonald (Lothians) (Ind)

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Jill Clark (Scottish Executive Justice Department)

Tom Harvie-Clark (Scottish Executive Environment and Rural Affairs Department)

Clare Morley (Scottish Executive Environment and Rural Affairs Department)

Andrew Scott (Scottish Executive Environment and Rural Affairs Department)

Ian Snedden (Scottish Executive Justice Department)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 14 September 2004

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

The Convener (Des McNulty): I welcome the press, the public and our witnesses to today's meeting. I understand that it is not the witnesses' fault that they have been a bit delayed in getting here and thank them for coming. I remind people to turn off pagers and mobile phones. Fergus Ewing will be late. Margo MacDonald will attend for discussion of the Holyrood report. As a mark of sympathy in Europe, following the tragic events in Beslan, Russia, Government buildings across the United Kingdom will observe one minute's silence at 11 am today. It is appropriate that we do the same, so I ask that at 11 o'clock we stand to remember all those who died in Beslan.

Fire (Scotland) Bill: Financial Memorandum

10:11

The Convener: Item 1 on the agenda is further consideration of the Fire (Scotland) Bill. Last Thursday, we took evidence from the Convention of Scottish Local Authorities on the financial memorandum to the bill. Today, we have with us officials from the Scottish Executive: Ian Snedden, head of the fire services division; Jill Clark, Fire (Scotland) Bill team leader; and John Nicholls, from the fire services division. I welcome all of you to today's meeting. If you wish, you may make a brief statement. If not, we will move straight to questions.

Ian Snedden (Scottish Executive Justice Department): I had not planned to make a statement. I am happy to move straight to questions.

Dr Elaine Murray (Dumfries) (Lab): The financial implications of the bill are greatest for control rooms. I accept that we do not yet know what the shape of the control room structure will be and that the matter is subject to consultation, but some fire brigades, including my local brigade, have expressed concern that some of the functions that are currently carried out by control rooms will not be transferred to the one or three proposed control rooms. They thought that the bill might have financial implications in relation to the transfer of staff and the fact that the brigades might have to undertake some of the functions to which I refer. That information is not included in the financial memorandum. What is your reaction to the concerns that have been expressed?

Ian Snedden: We engaged the consultants Mott MacDonald, who are very experienced in the area of control rooms, to examine the situation in Scotland. In their comprehensive report, they identify the fact that control room operators perform various tasks in addition to answering 999 calls and dispatching resources. They carry out tasks such as data collection, performance management and statistical analysis, as well as some crewing activities. Whether the number of control rooms is reduced, those functions, which are brigade functions, have to be continued. In their report, the consultants indicated that probably about 20 per cent of staff would be required for that purpose. We would expect brigades to be able to deploy staff to carry out the tasks. Because the tasks are being carried out at the moment, the costs would not change.

Dr Murray: Is the maximum saving of £3.3 million an annual saving from having one control room?

Ian Snedden: The consultants worked up a model of costs, based on the study that they carried out. They have also conducted studies of control rooms in other areas, including in England. The model that they used when producing their report is obviously a snapshot in time. The amount of money saved depends on the option for control rooms that is chosen. If the recommendation of one control room were accepted, the maximum amount of savings would be released. The figure of £3.3 million comes from the consultants' report.

The Convener: Is the basis for calculating that figure made explicit in the consultants' report?

Ian Snedden: No. There is detail about it, but not precise detail.

The Convener: It might be helpful for us to have some indication of how the figure was arrived at.

According to the financial memorandum, the integrated risk management plans could have an impact on the formula that is currently used to calculate funding for the fire service. To what extent do you think that that is likely? What would be the implication of any change?

10:15

Ian Snedden: I will explain the current system first, which may help members to understand the changes that are likely to happen as a result of the introduction of integrated risk management plans.

At the moment, almost all the funding for the fire service is predicated on the existing standards of fire cover, which determine the number of vehicles and firefighters that brigades send out in response to emergency calls. There are four categories. Category A relates to inner-city areas that include places of entertainment, offices and so on. Category B includes housing. The standards of fire cover for those areas determine how many vehicles are needed. For example, in category A areas three trucks must be sent to each incident, whereas in category B areas two trucks must be sent. Because the vehicles have to be crewed 24 hours a day, 365 days a year, the number of vehicles that need to be sent determines how many firefighters are required. That produces the figure for each brigade, which is based totally on the existing standards of fire cover.

The standards of fire cover date back to just after the war; there has been no change to them since then. An integrated risk management plan will be a much more flexible way of determining brigades' response, as it will be all about identifying risk. Some areas will still get the maximum response of three vehicles, but responses will be much more closely related to the risk in fire authority areas and will not be predetermined by the standards of fire cover.

The Convener: You are saying that the introduction of integrated risk management plans may bring greater flexibility and less rigidity to the mechanism that is used to calculate funding.

Ian Snedden: Absolutely.

The Convener: I want be clear that you are not necessarily assuming that efficiency savings will be tied in with the introduction of integrated risk management plans in Scotland and that an overall reduction either in manpower or funding will not be associated with that.

Ian Snedden: That is certainly not the intention. The intention is to produce a more flexible system. If that results in a better, more efficient system, savings may flow from that. Fire authorities will be able to use savings to reduce response times under the existing standards of fire cover or may invest them in, for example, greater prevention activity, which we think would be much more beneficial.

The Convener: So no efficiency target is tied in with the measure.

Ian Snedden: No efficiency target has been set, but it was made clear that the most recent pay agreement for the fire service would be self-financing. The fire authorities and the Fire Brigades Union signed up to the deal on that basis. Obviously, fire authorities will have to consider how they finance the pay deal.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I return to the issue of control rooms. Have you considered the experience of Lothian and Borders police's force communications centre, where the lack of robustness of the initial business plan has imposed considerable additional costs?

Ian Snedden: I am aware of the situation with Lothian and Borders police, who are reducing the number of control rooms from seven to one. From what I have read about that experience, it is clear that the force is having some problems. No decisions have been taken about control rooms. As members know, the consultants' report is out to consultation and we have not yet received all the responses. We are anxious that, if changes are made to the control rooms, they should be introduced on a consensual basis. We must take the fire authorities with us. I accept fully that the funding streams that are mentioned in the consultants' report relate to a snapshot in time—the point at which the study was carried out. There would have to be a rigorous analysis of the funding requirements of any change. We would, of course, be mindful of the problems that the police have experienced.

Jeremy Purvis: Would it be useful for you to speak to Lothian and Borders police?

Ian Snedden: Yes, it would be. If the change goes ahead, we will obviously need to set up a project board and involve all the fire authorities and all the other stakeholders. We will also need to examine the experiences of other agencies that have moved in the same direction.

Jeremy Purvis: I have two other questions, convener, but they are not on control rooms.

The Convener: Ask them quickly.

Jeremy Purvis: The financial memorandum mentions the firelink project, which is United Kingdom-wide. On the costs that are associated with that, you have said that there are two funding options, one of which is

“a Scottish contribution of around £26m”.

Is that as a share of the UK purchase of the system? If so, what would be required for maintenance and renewal of the system and how long would it last? What would the mechanism be for the Scottish share?

Ian Snedden: The background to that project is that fire services all have their own existing radio systems, some of which are around 20 years old, and fire authorities throughout the UK were moving in different directions on acquiring new systems. The events of September 2001 made interoperability between the fire authorities and the police and other emergency services critical, so it was agreed that we should proceed with a UK project for replacing the radio system.

In going out to tender, we asked bidders to submit costs based on a UK-wide model and based on separate models for England and Scotland. At the moment, the process is still continuing. The bidders are in negotiation with the project team and we expect their best and final offers within the next few months.

Jeremy Purvis: What is the system’s expected lifetime?

Ian Snedden: At the moment, it is based on 10 to 15 years. The contract would involve maintenance of the system over that period.

Jeremy Purvis: That compares with £75 million for the managed service provider contract over the same period.

Ian Snedden: Yes. At the moment, we do not know what costs the bidders will come up with; we will clearly need to have discussions with them once we see their best and final offers. There is obviously an affordability issue: we do not want to pay a lot more in Scotland than is paid for the same service south of the border. Those issues will all need to be taken into account as we progress with the process.

Jeremy Purvis: When will you know the costs?

We are scrutinising the financial memorandum of a bill and it is useful to have the options presented to us—we appreciate that the situation is quite open—but how can we scrutinise the final costs? They could be £75 million or they could turn into £150 million.

Ian Snedden: We might have a figure before Christmas, but it might be into the spring of next year before the process is completed and a contract is signed. That is my best estimate of when we will have an outcome.

The Convener: I am not sure about how we scrutinise that, but we can deal with that matter later on in the agenda.

Jeremy Purvis: On the statutory duty of fire safety, the financial memorandum mentions that between £100,000 and £150,000 will be necessary to promote the new legislation. However, that does not cover the senior staff time or staff time for attending meetings of community councils or community groups or for responding to requests for advice on fire prevention and safety. Responding to such requests will become a statutory duty for fire authorities and that will definitely entail a cost, so why is that cost not listed in the financial memorandum?

Ian Snedden: I ask my colleague Jill Clark to respond to that.

Jill Clark (Scottish Executive Justice Department): Are you talking about fire safety in the workplace, rather than community fire safety?

Jeremy Purvis: I am talking about section 7, which is headed “Fire Safety” and talks about each authority

“promoting fire safety in its area.”

Jill Clark: Do you mean section 7 of the financial memorandum?

Jeremy Purvis: No, sorry, I mean section 7 of the bill. It is covered in paragraph 122 in the financial memorandum.

Ian Snedden: That is about community fire safety.

Jill Clark: That duty is not new as such, because most brigades already carry out community fire safety activities to some degree. Section 7 puts the existing duty on a statutory footing and recognises the move towards prevention—rather than intervention—and trying to drive down the risk. No new costs should be attributable to that, because brigades already go out into their communities and speak to people about how they can reduce the occurrence of fires in domestic premises, for example.

Ian Snedden: On activity with other groups that are involved in broader community safety, the

Local Government in Scotland Act 2003 provided powers for the fire service to be involved in community planning. A lot of community planning activity is about considering safety across the board in an area and the fire service was keen to be involved in such discussions.

Jeremy Purvis: In the evidence that we received from COSLA last week, a distinction was made between current practice and a statutory responsibility.

Ian Snedden: A lot of the bill is about providing a statutory footing for functions that the fire service has been carrying out for many years, such as promoting community fire safety, attending road traffic accidents, attending chemical spills and helping to rescue people when there is flooding. Therefore, a lot of the bill is about saying to the fire service that we recognise that it is carrying out such activities and that we think that it needs to have the statutory powers to underpin what it does. There are powers in the bill to add duties and, if we were to place new duties on the fire service, we would obviously have to consider the funding implications of doing so.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): When Jeremy Purvis spoke about extra duties, he touched on some of the matters about which I will ask. When we questioned the witnesses from COSLA last week on core duties generally, they expressed concern that their views had not been taken into account. They also felt that the views of member authorities had not been taken into account. In their written submission, they went so far as to say:

“It is completely unacceptable that new burdens were not funded”.

They also stated that to say that those new burdens are simply a

“formalisation of the role which the Service currently undertakes”

is absolutely wrong. Will you give some clarification on that?

Ian Snedden: I am surprised that that is the response that COSLA gave. When we drew up the proposals for the bill, we went out to consultation. However, before we even went out to consultation, we had pre-consultation with COSLA about the powers that we proposed to put in the bill and about the functions that we expected fire authorities to undertake, which, as I have said, they currently undertake. At that stage, we had no suggestion from COSLA that it found all that unacceptable. There were obviously issues about which we disagreed—such as the additional ministerial powers under the bill, which COSLA did not like—but I do not recall having problems with COSLA saying that it needed more money to enable the fire authorities to carry out the statutory

duties, because they carry those duties out at the moment.

Mr Brocklebank: That is surely fundamental. You say that COSLA did not make any claims to that effect during the pre-consultation, but COSLA representatives have said to the committee that the introduction of the duties is totally unacceptable. There is clearly a chasm there—there is clearly a misunderstanding on somebody’s part—and who knows whether the extra cost that COSLA says will be incurred is accurate?

Ian Snedden: COSLA has a particular position that it wants to put forward and there is healthy tension between us and COSLA when we talk about money. We talk about money for pensions and we talk about the grant-aided expenditure settlement in spending reviews, for example. There is a healthy tension between us about what COSLA thinks that local authorities need and what we believe that they need. As far as the bill is concerned, all I can say is that we consulted COSLA and I do not recall it asking for lots more money if we were going to give fire authorities further powers.

Mr Brocklebank: Is it a case of COSLA posturing in front of the committee?

Ian Snedden: It is not for me to say that; I can only say that we consulted COSLA. The situation reflects its concerns about the fire service generally and our belief that we are giving fire authorities a statutory underpinning for the work that they carry out.

10:30

The Convener: To be fair, we are talking about a general argument that COSLA put and that was then applied in this instance. It is an argument that we have heard before.

Jim Mather (Highlands and Islands) (SNP): I am keen to go back to the issue of control rooms. What efforts are being made to identify and quantify the likelihood of slower response times in certain rural areas, which might result in increased damage and loss of life, in higher insurance premium costs and perhaps in a reduction in investment in those areas? Is any thinking being done on that?

Ian Snedden: I do not see that that should necessarily be a problem. The consultants’ report makes it perfectly clear that there is the technology and experience that is needed to handle all Scotland’s fire control room calls from one centre. The number of control rooms in Strathclyde came down from five to one in 1985 and that has worked perfectly successfully—there have not been lots of problems in responding to calls. Audit Scotland has given good reports on

the Strathclyde fire control room and Her Majesty's fire service inspectorate has made complimentary remarks about the way in which the control room handles incidents in Strathclyde.

The fire service already has experience of being able to handle lots of incidents from one control room. Strathclyde handles something like 60,000 incidents a year, which is half the total in Scotland—about 122,000 incidents a year have to be handled by control rooms and one control room in Strathclyde already handles half of them.

Jim Mather: You will understand my concern, given the recent experience of Lothian and Borders police, where the plumbing of the operation seems to have created a bottleneck. The thing that is worrying me is that that plumbing bottleneck may be exacerbated by a loss of local knowledge. I find it disconcerting that that has not led you to consider the wider implications of the cost savings. Although a £3 million saving is a significant sum of money in control centre terms, it is not so significant in terms of the overall Scottish economy. What worries me is that you might leave yourselves open to a higher incidence of negligence claims, more hoax calls or more confusion, because people do not know which location is which. Over the piece, you might throw an important baby out with the bath water, because it might be easier to retain staff in a remote area—with lower recruitment and training costs—than to have them in one central area.

Ian Snedden: You make a perfectly fair point about recruitment and training. The consultants certainly expect that, if we reduce the number of control rooms, a number of staff will stay with the service but other staff will need to be recruited and trained, perhaps because of where the control rooms are to be located. That is a perfectly fair point and one that we will clearly have to take into account as we develop the models.

In general, comparing the police and the fire service is not comparing like with like. The Lothian and Borders police control room currently handles around 45,000 calls a month, with 999 calls on top of that. The Lothian and Borders fire control room handles only 22,000 calls a year, so there is an issue of scale. Similarly, Strathclyde police, who handle something like 9 million calls a year, are proposing to reduce their number of control rooms from nine to three. Because of technology and because of the kind of tracking systems that we use, the consultants believe—and the evidence in the report also points in this direction—that the concerns that you have outlined should not be a problem. However, we understand those concerns.

Jim Mather: I accept your point about volume, but, in relation to the Gaidhealtachd, a control room operator will have to deal with Gaelic place

names and different accents. Numerous place names are the same, such as Tarbert, and that creates a problem. Do you currently maintain and publish statistics on the incidence of fires and road traffic accidents by area—and the response times—on a comparative basis and will you do so after the bill is implemented so that we can count the score and see what is happening?

Ian Snedden: A lot of information and data are published, including the information in the chief inspector's annual report, which looks at the number of calls and incidents and subdivides the information by the kind of fires and by the fire brigade areas. Audit Scotland produces an annual report showing the response times and targets for various brigades. We would certainly be looking at that information in relation to the integrated risk management plan. We are already in discussion with Audit Scotland about the kind of targets and performance measures that we will try to put in place when we move away from the current standards of fire cover.

Jim Mather: The £3 million saving is a gross saving within the fire service. It is possible that other costs could be accrued, either to the fire service or to the wider Scottish economy, as a result of that move.

Ian Snedden: I take that point, which is perfectly fair.

John Swinburne (Central Scotland) (SSCUP): How did you calculate the figure of £100,000 to £150,000 for a publicity campaign? In a television campaign, a 20-second film shown four or five times can use up £100,000. Are you just paying lip service, or will there be a serious publicity campaign?

Ian Snedden: We may have misled you slightly in that regard. A new fire safety regime will be introduced under the new legislation. In England, the new fire safety regime will come in under a regulatory reform order. Guidance documents will be issued about the new regime, about the new arrangements and about carrying out risk assessments. The £150,000 relates to the costs that we expect to incur in the preparation of guidance documents. We have not yet put a figure on the publicity campaign, but we will have a campaign. That will be important, particularly for those voluntary organisations that have not had the fire safety certificate regime imposed on them under the current legislation.

John Swinburne: Have you given any thought to a ballpark figure for how much it might cost?

Ian Snedden: I would not want to commit myself to that at this stage. Our colleagues south of the border are talking about something like £3 million for a publicity campaign, so if we take the usual 10 per cent for Scotland we would probably be

looking at a sum in excess of £200,000. We have a national fire safety television campaign in Scotland at the moment called “Don’t give fire a home”. We have been spending about £400,000 to £500,000 on that.

The Convener: Some fire brigades suggested that the removal of the requirement for a fire certificate could result in a loss of income rather than a gain through savings. Could you comment on that?

Ian Snedden: It is absolutely true that fire brigades will lose some income, but it is de minimis in relation to the total expenditure on the fire service. The estimates that we have received from brigades about loss of income in the current financial year are in the region of £165,000—that is the total amount that fire brigades would expect to take in from fire certificates this year. It is not a huge amount of money. Of course, that income relates only to the administrative work that is carried out for the fire certificate; staff will be freed up from carrying out that work when they do not have those functions to perform, so we think that one will balance out the other.

The Convener: On behalf of the committee, I thank the witnesses for coming along this morning. The clerks have taken a note of the issues that members have raised. If members have any other specific points, perhaps now is the time to mention them. I would just like to make a point that has been mentioned before in relation to other bills—the problem of costs being introduced at a later stage through subordinate legislation. I think that we should raise that point in our response to the subject committee.

Water Services etc (Scotland) Bill: Financial Memorandum

10:40

The Convener: Agenda item 2 is further consideration of the financial memorandum to the Water Services etc (Scotland) Bill. Last Thursday, we took evidence from the water industry commissioner and from Scottish Water. Today, we will hear from Scottish Executive officials: Andrew Scott, who is head of the water services division of the Environment and Rural Affairs Department; Clare Morley, who is the bill team leader; and Tom Harvie-Clark, who is an economist in the department’s analytical services division.

As I said last Thursday, I am anxious that the committee concentrates on the financial memorandum. We can address the broader issues about water when we take evidence from the Minister for Environment and Rural Development, who is due to appear before us on 28 September. Later this week, we will receive additional legal information from the WIC and from Scottish Water.

I invite Andrew Scott to make an opening statement before we move to questions.

Andrew Scott (Scottish Executive Environment and Rural Affairs Department): Briefly, we believe that the benefits of the bill will substantially outweigh its costs. Important public health benefits will be gained by safeguarding against the diluted accountability that would result from common carriage. Important environmental benefits will be safeguarded by, for example, the prevention of sewer flooding. The bill will also safeguard important social inclusion benefits, such as the harmonised charge throughout Scotland and the system of discounts that are worth a great deal to vulnerable households across Scotland. Finally, the bill will enable us to ensure that we can continue to provide discounted finance to Scottish Water from the public purse. We believe that the benefits of the bill substantially outweigh the costs.

Jeremy Purvis: The financial memorandum says that advice was received from the water industry commissioner on the cost of setting up the licensing regime. A cynic might say that the water industry commissioner would be unlikely to suggest a low cost—although the commissioner said in his evidence that it was a bottom-up exercise. Was advice sought from other regulators in Scotland or the UK on the potential cost of setting up a licensing regime? For example, was advice sought from the Office of Gas and Electricity Markets?

Andrew Scott: I know that Alan Sutherland consulted other regulators in coming to his

estimates. He also set up a project to examine the costs in some detail. Clare Morley can explain how the costs were arrived at.

Clare Morley (Scottish Executive Environment and Rural Affairs Department):

The costs that the water industry commissioner gave were the best estimate that was available at the time. He continues to work on costs and, I understand, he will publish a scoping study in the next couple of months. The figures that he has provided to date confirm those in the financial memorandum. The financial memorandum breaks down the £5 million costs into five categories. Would it be helpful if I talked more about each of those categories?

Jeremy Purvis: I would be happy to get more details. My reason for asking is that Ofgem is changing the licensing regime through the British electricity trading and transmission arrangements, the legislation for which is proceeding through Westminster. The work that has been done on that should give us a direct parallel for the costs of this process. It would be useful to have more details on the licensing regime costs.

The Convener: I presume that we can get that information in writing.

When we took evidence from Scottish Water and the WIC last week, we talked about the financial risks—as opposed to the other kinds of risks that Andrew Scott referred to in his opening statement—that might arise if the bill were not introduced, such as the possibility of a challenge under the Competition Act 1998. I understand that the Executive has received legal advice on that, but how do those policy issues impact on the financial calculations?

10:45

Andrew Scott: The current situation in Scotland is that the industry is entirely unprotected from the effects of the Competition Act 1998. The Water Act 2003 protects the industry in England and Wales from the effects of the Competition Act. In Scotland, we are taking a similar precautionary step, although in a slightly different way.

The principal public health and environmental risks are to do with the possible introduction of common carriage, which would dilute accountability for public health. The principal financial risks are that we would not be able to maintain our policies for social inclusion in water charging, which are provided through a series of discounts that are worth around £75 million per year. With competition in common carriage in the domestic market, the discounting system that transfers money from affluent to less affluent customers would break down. We would be unable to maintain those discounts, so affordability for vulnerable households would suffer.

Another financial risk is that, if the market were to become entirely contested, the terms on which we grant loan funds to Scottish Water might also be challenged. We cannot be sure about that, but it is possible. We lend Scottish Water money at rates that are much more favourable than those it could get on the open market. I think that that difference is worth about £40 million or so each year. Is that right, Tom?

Tom Harvie-Clark (Scottish Executive Environment and Rural Affairs Department): Yes.

Andrew Scott: That £40 million difference is for Scottish Water's entire loan stock. It is difficult to model that risk, but it is potentially quite substantial.

The Convener: How effective will the bill's provisions be in deterring large-scale industrial operators from going to a supplier other than Scottish Water? What inhibitions does the bill provide?

Andrew Scott: Such companies can already go to other suppliers and it is not the bill's intention to deter them from doing so where that is in their interests. However, the bill makes various provisions for handling special circumstances so that industrial operators that take steps to reduce the costs that they place on the public network can get a discount on their bill. That is the principal step to ensure that large users remain on the network where it is economic for them to do so.

The Convener: I thought that the bill also imposed requirements on operators who enter the market so that they cannot simply pick and choose.

Andrew Scott: The bill will set a national harmonised charge, which will be segmented according to the circumstances of different users, such as large and small users. The principle of the national harmonised charge is not to keep large users on the network everywhere—for example, they might sink boreholes in areas where they have ready access to low-cost water—but you are right in so far as the harmonised charge will maintain a level playing field across Scotland.

The Convener: Is it your argument that the costs that are entailed in the bill are justified, at least in part, by having a controlled market that does not create sudden incentives for large water users to bail out of the system and leave other consumers to pay for a network that has to be there anyway?

Andrew Scott: That is right. Widespread, unregulated common carriage would result in regional de-averaging of price.

Dr Murray: The financial memorandum provides figures for the operation of a competitive retail

market, but Scottish Water's independent consultant—IBM Consulting, which has done similar work in other parts of the world—came up with figures that were rather higher than those provided by the Scottish Executive. Are you aware of that work? Have you had a chance to examine those figures? We asked Scottish Water whether IBM could divulge the results of its research to us. Have you had an opportunity to discuss that work with Scottish Water? How robust are the Executive's figures, given that IBM has provided very different figures?

Andrew Scott: We discussed with Scottish Water the costs in the financial memorandum, but it was unable to provide us with alternative figures. Our view is that the financial memorandum's figures are reasonably robust. That is largely because what will be set up will be a simple sort of market. Tom Harvie-Clark will elaborate.

Tom Harvie-Clark: The figures in the financial memorandum were based on advice from the WIC, whose estimates were informed by previous research that had been done for him. The proposed water market will be a much simpler market than the electricity and gas markets because there will be no multiple generators, nor common carriage. There will also be no storage issue such as there is with the electricity market, in which half-hourly balancing must be undertaken. That means measuring every customer's usage every half hour each day of the year, which is over 17,500 usage figures each year for each customer. The water market will need just one annual figure, so it will be a simpler market to operate. That is why we think that the cost of the switching engine will be modest compared with that of other utility markets.

Dr Murray: I believe that the attitude to common carriage south of the border is different to what the Scottish Executive proposes. Is it part of your rationale that common carriage would make it simpler to operate the market? Is that a financial consideration for you?

Andrew Scott: No. The reason why we are not proposing common carriage is that we think that it poses a risk to public health and the environment. We do not have reasonable grounds for setting a policy objective that would eliminate retail competition within the business market. That is why we are allowing it.

Mr Brocklebank: The bill will allow new ministerial powers of direction, but I am not sure what they would be. You claim in the financial memorandum that it is not possible to predict what costs might arise in complying with a direction. Why is that? Are you not able to get into scenarios that might estimate costs?

Andrew Scott: Which direction are you referring to?

Mr Brocklebank: It is under "Charge determination". The bill will allow for new ministerial powers of direction, but the financial memorandum says that it is not possible to predict what the costs might be of complying with such ministerial direction.

Andrew Scott: I think that what you are referring to is the process by which the ministers will set objectives for the industry as part of the strategic review.

At the end of this year, ministers will take the results of the consultation on the quantity of investment that should take place in Scotland and add that to public views about how we should levy charges in Scotland. They will then set objectives for the industry for 2006 to 2010. In doing so, they will look forward to 2014 because we must be mindful of the quantity of investment that will take place from 2010 to 2014, to ensure that we do not end-load too much when we think about what must happen in the next four years. The powers of direction will bring clarity to the whole process because they will render clearly what the public expects the industry to achieve. We have not had that to date and that is why, for example, there has been so much confusion about accountability to do with harmonisation over the past couple of years.

Mr Brocklebank: Sorry—I am still not sure why you are not able to guesstimate how much it might cost to comply with ministerial directions.

Andrew Scott: What will happen is the strategic review process. Ministers will publish in January guidance or directions on what the industry must achieve. The commissioner will go away and do his sums. He will come back in the summer and say, "Well, ministers, if you really want all these things delivered for the water industry and you want the water and the environment to be this clean, and you want this to be tackled by way of odour and this to be tackled by way of development constraints, and you have told me how much public expenditure you are prepared to give the industry, then bills will have to go up by this much to pay for it; and because you've set principles of charging which will require subsidies to run from here to there, which means that the price caps will vary for different types of customer."

That will provide the public and ministers with an opportunity to see how much their demands for cross-subsidy, drinking water quality and the environment are going to cost them. At that point ministers can draw back; or, if they are pleasantly surprised by the process, they can say, "Well, perhaps we can have a bit more." However, the process of calibrating the cost of the demands that we place on the network will be much more finely tuned than it has ever been and it will be much more explicit because the objectives will be clear,

the draft determination will be published and there will be a process by which people can modify that in leading to the final determination in December.

Mr Brocklebank: So it has not been possible to create economic models for differing scenarios and try to come up with some kind of costing for them.

Andrew Scott: There are broad hints in the quality and standards consultation document. If you have a chance to read it, you will see that some very large figures are posited for future investment requirements. To fund those figures we would need to increase water bills substantially. Inevitably, other factors will come into play—for example, affordability and deliverability. There is no point in raising water charges to such a point that people cannot afford them and there is no point in specifying a capital programme that cannot be delivered—or that cannot be delivered efficiently. Ministers will take all those matters into account at the end of this year, when considering their response to the public consultation. They will publish their deliberations at the beginning of next year.

Jim Mather: I did not hear you make much mention of economic impact in your opening statement. Do you envisage the bill having an economic impact?

Andrew Scott: I think that the best way to regard the bill is to see it as a precautionary measure; if we do not enact the bill, bad things will happen. That is the first point. The second point is that some of the most important aspects of the bill are not directly addressed in the financial memorandum because no novel costs are associated with them. Undoubtedly, the move to independent regulation will bring substantial additional efficiency incentives to bear upon the industry, which can only be good for taxpayers and charge payers.

Jim Mather: My concern is that the bill could create an acceleration of larger businesses opting out of Scottish Water service provision and that that might blow back on the generality of domestic users and the poorer users that you mentioned at the outset. Has anything been done to evaluate that risk and to take steps to prevent it?

Andrew Scott: It is very hard to put figures on that. Inevitably, when one talks to large users they always play up the threat of leaving the network, particularly when they have alternative supplies. However, we have introduced arrangements that enable large users to reduce their water bills when they have taken steps to reduce their calls on the public network. An example of that might be a whisky distillery that takes raw water rather than chlorinated water into its distillery. That imposes less cost on the public network, so the distillery will get a discount on its charge. Another example

might be a large water user that installs storage tanks on its site to limit its peak consumption, which would qualify it for a discount on its bill. It is also the case that the national wholesale charge is in part a notional idea because charges will be set to be cost reflective and there will be categories of users. Because large users impose less cost on the system in various ways, they will still qualify for a discount. Therefore, the large-user tariff will continue, but it will be the same across Scotland.

Jim Mather: You mentioned at one point that without the bill Scottish Water's ability to borrow at favourable rates would be limited.

Andrew Scott: It might be.

Jim Mather: What are the implications of that in interest rate terms?

Tom Harvie-Clark: Scottish Water borrows from the Executive and gets Government borrowing terms, which gives it cheaper debt than any other company. Our estimate of that margin is that it is about 2 per cent. Scottish Water's debt is about £2.2 billion, so the benefit from cheaper debt comes to about £44 million a year.

Jim Mather: With competition legislation bringing pressure to bear on Scottish Water, surely that is not the only change that you would expect to see.

Andrew Scott: If Scottish Water were to be challenged in the courts, anyone seeking access to its facilities or seeking to compete with its facilities would say that Scottish Water receives state aid, which distorts competition because no other company can compete so favourably. It would be argued that the interest rates—

11:00

The Convener: I am sorry to interrupt you—I should have mentioned this earlier. We agreed that we would stand to observe a minute's silence at 11 o'clock in memory of the people of Beslan.

11:01

Jim Mather: I did not want to dwell in particular on the matter, but I wanted to make the point that if the windows and doors were open to let in some fresh air on the issue and allow the scrutiny of Scottish Water in relation, for example, to borrowing and the prospect of state aid, there would be another side to the equation. In such circumstances Scottish Water might be forced to be more competitive about charging and perhaps borrow more and factor things over time. I wanted to put that on the record.

Andrew Scott: We are strengthening the provisions for independent regulation, to make them much more akin to the system that operates down south. There is very little competition down

south; what has brought the huge efficiency gains is benchmarked, comparative competition. We are introducing that properly in Scotland and I expect that to bear down substantially on Scottish Water's costs.

I also expect that Scottish Water would find it easier to reduce costs in an environment in which it did not have to look over its shoulder all the time at competitors who might be trying to cherry pick various customers and in which it would be able to concentrate on a narrower range of matters.

Jim Mather: At last Thursday's meeting the committee again heard concerns that we are not comparing like with like. I would be grateful if you would have a look at the *Official Report* of that meeting and give some thought to the matter.

I have a final question. In your opening statement you said that public health and environmental considerations are key drivers behind the bill. The financial implications are bleak for the people I know in places such as Campbeltown, which has been flooded on several occasions. They have difficulty obtaining insurance cover, let alone coping with the disruption, the costs and the loss of business. How would the bill help such people?

Andrew Scott: First, I do not know about the cost of serving Campbeltown in particular, but I presume that it is one of the more expensive areas to serve. The bill would enable us to preserve a national approach to charging, which might benefit Campbeltown.

Secondly, the strictures on efficiency would mean that bills in Campbeltown would be lower than they would be otherwise, so we would be able to afford more investment than we would otherwise because there would be a rigorous process for ensuring that investment is delivered efficiently—in general terms.

The Convener: I return to the competition modelling that would be allowed under the bill. You made great play of the fact that there would be a national charging system, which would permit some measure of cross-subsidy between different parts of Scotland and different types of users. Although people might support the principle of cross-subsidy, I think that there will be much interest in its extent in different parts of Scotland. Do you anticipate that the competition mechanisms in the bill and the scrutiny process that would be associated with the role of the proposed water industry commission would allow the level of cross-subsidy to be carefully considered, not just on an on-off basis every four or six years, but as part of the process of considering investment, for example?

Andrew Scott: People are much more sensitive to the price of water than they have previously been and are much more mindful of what they are getting in return for their bills. As part of our preparations for advising ministers on how they should approach setting objectives for the period from 2006 to 2010, we have commissioned a project that will provide a model of current cross-subsidies in Scotland. The results of that project will be published in the new year at the same time that ministers publish their objectives for the industry. Indeed, one of the objectives that ministers will have to consider is whether they unwind any existing cross-subsidies in the business community and from business to domestic charge payers. As a result, subsidies will be thoroughly examined and decisions will be taken in December or January about what any future subsidies should be.

The Convener: If one follows an argument based on social or environmental drivers, as opposed to an argument that is driven by economic growth, one will end up with different kinds of outcomes for investment. For example, if you argue that economic growth should be the prime driver, you will presumably try to deal first with the most serious constraints to development in Scotland. However, that approach will apply to the more industrialised parts of the country instead of to the more remote rural areas, which will argue that their needs are equally important. How do we deal with that? How will the mechanism that the proposed legislation seeks to put in place allow us to identify and balance the different factors such as rurality and urbanity, growth and social inclusion and so on that have to be taken into account in making such decisions?

Andrew Scott: We have this wonderful thing called a minister who, if the bill is passed, will be obliged to set objectives for Scottish Water. That is the mechanism proposed. In support of that, we are currently carrying out two consultations. The consultation that deals with investment, called "Investing in Water Services 2006-2014", is quite a large project that has been running since January 2003. It comprises all the principal stakeholders of the industry, who have been systematically examining what we need to spend on infrastructure maintenance, drinking water quality, environmental compliance—there is a lot of money tied up in that—development constraints and odours. As a result, the consultation is a comprehensive examination of investment needs that is built from the bottom up. Rather depressingly, it has produced a very large figure. Ministers will simply have to make judgments on their priorities and make them explicitly clear. That was not the case when quality and standards II was established.

The Convener: The process seems to have been driven largely by environmental compliance, particularly with European directives. How does the introduction of competition to the industry that we have been talking about link into an agenda of competitiveness or growth across Scotland? Has there been any consideration of that issue as part of this exercise or is it a separate matter? Will you examine competitiveness purely in the context of managing the balance within the industry and not necessarily in the context of managing the development and growth of Scotland?

Andrew Scott: The straight answer to your question is that the issues are separate. I do not think that a more competitive market will cause infrastructure to spring up in places where it does not exist. Nonetheless, ministers will have to make a judgment about the extent to which the network should be developed when they set objectives as the proposed legislation will require them to do. In January, ministers will have to make such judgments explicit. As a result, they will trade off bills against the extension of the network, the cleanliness of the environment and the quality of drinking water.

You are right to point out that environmental drivers represent a significant proportion of Scottish Water's new investment requirements. When ministers set the objectives for the programme, they will take into consideration the risk of infraction from the European Community in determining just how far they can go. It will be one issue versus another. There will be a series of difficult trade-offs in the new year, but the bill makes those trade-offs explicit. It gives the political choices to ministers and it gives the technical function of determining the cost of those choices to the water industry commissioner.

Jeremy Purvis: I have a question about the "eligible premises", where competition will apply. The intention is obviously for eligible premises to exclude domestic premises, so that retail competition will not apply to domestic billing procedures. Collection will remain with local authorities, hence the financial memorandum indicates no cost to local authorities through a loss of revenue because of their no longer having the charge to collect. Is consideration being given to the independent review of local government finance? If a recommendation that council tax should be replaced by another system comes out of that review, that would radically change some of the bill and the whole structure of the collection of charges through the council tax.

Clare Morley: The bill does not attempt to pre-empt that in any way. It refers to charges being set by reference to council tax bands so as to ensure that that is a clear principle by which domestic charges may continue to be set. It does not

require that, however. We will have to wait for the outcome of the review. The bill does not pre-empt such a recommendation, nor would it necessarily need to be rewritten should events unfold as you suggest.

Jeremy Purvis: It would, however, be quite a radical change to Scottish Water's financial role if its retail subsidiary contracted out to collecting agents or if it took over the collection role itself, dealing with all the administration for the discounts and so on that are currently linked with council tax.

Clare Morley: The bill leaves the billing of domestic households with Scottish Water wholesale, as it prohibits competition for domestic households. That would not be an issue for Scottish Water retail to consider. At the moment, the local authority collection of domestic water charges is highly cost effective.

Jeremy Purvis: Therefore, it would not be cost effective for Scottish Water wholesale to—

Clare Morley: It might result in increased costs if Scottish Water were to lose access to the existing mechanism.

Andrew Scott: Broadly speaking, it costs Scottish Water between £4 and £6 to issue a domestic bill. In England and Wales, where companies do not bill through local authorities, it costs several times that. Figures in the region of £15 to £20 have been used. Billing through local authorities not only enables us to achieve our social objectives, but it is pretty cost effective.

Jeremy Purvis: Is it the case that that does not open up liability under the Competition Act 1998? Is there not then a monopoly for the collection of tax? For electricity and other utilities, companies compete as collecting agencies.

Clare Morley: The bill contains a prohibition of retail competition for domestic users on the grounds of protecting vulnerable households. As the policy memorandum says, that is the only way in which we think we can continue to deliver the current discounts, which are associated with council tax collection, including the banding and the single adult household discount. That will also be the key to any future discount package that might be associated with council tax benefit, as was suggested in the consultation on paying for water services.

Andrew Scott: If you were to do away with the discounts altogether and if you encouraged innovation around sending bills to households, it is quite possible that private companies might be able to serve Scotland a bit more cheaply than we think they might be able to do at the moment. The trouble is that they would have to go a very long way to be able to reduce their cost to the extent that local authorities can do now. Local authorities

complain to us that they do not get paid enough for collecting each household's bill, and there is an issue about bad debt. However, broadly speaking, the arrangement commends itself on the grounds of cost.

The Convener: I thank the witnesses very much for coming along and answering our questions.

If members want to give the clerks some guidance on specific issues that they would like to be incorporated in our report, they should mention them now. However, the main issues have probably been raised during our questions. We will circulate a draft report to members.

Scottish Parliament Building

11:15

The Convener: The third item on the agenda is correspondence from the Presiding Officer, which was e-mailed to members yesterday.

Mr Brocklebank: In view of recent public concern over security problems in the Parliament, can we consider two items on security costs? Under the heading "Risk drawn down from 'Construction Reserve'", a figure of £205,000 is shown, with a bracket round it. Then, under the heading "Movement from Contingency to reserve", a figure of £90,000 is shown. Can somebody explain what those two figures represent? Does the £205,000 represent money that is over budget on security? Why is there a bracket round the figure?

The Convener: I do not think that there is anybody here who can explain that, but we can write to the Presiding Officer with any questions that members have.

Ms Wendy Alexander (Paisley North) (Lab): I want to add three items to the list of questions that we e-mail. First, can we have clarification on the total sum that is still to be settled? I may not be reading the list of costs correctly, but I struggled to find that sum. Of the £430 million, how much has still to be settled? I am asking not about the number of trade packages but the budgeted sum involved.

If we discover that tens of millions of pounds are still to be settled, and that a huge risk factor is associated with that—because of disputes about late payment and so on—clearly it matters who is carrying out the negotiations. I know that there is some confusion about who is the client, so my second question is, who is currently the client, and is that likely to change? If the Holyrood progress group is being done away with in favour of a "Post Completion Advisory Group", that implies that there has been a change.

The Convener: The client will remain the Scottish Parliamentary Corporate Body, but there may be an issue over the intermediary on behalf of the SPCB.

Ms Alexander: Indeed. My three questions would be: what is the budgeted sum still to be settled; if the client is the SPCB, who is currently managing on its behalf; and will the advisory group have a different status from the HPG.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I apologise for being a bit late this morning; I was detained on other business.

I, too, want to ask about the post-completion group and whether the Presiding Officer will clarify

how that group will work. For example, will the group report to this committee? Will Parliament have an opportunity to scrutinise its work—in particular its work in trying to recover cash for the public by pursuing legal claims based on negligence or breach of contract?

The Auditor General, in his report that was published three months ago, made the crystal-clear statements that in his view—this was not picked up by the daily press at the time—there had been a lack of systematic assessment of the work as the project team had gone along over the past number of years and that that lack of work might impair the ability successfully to pursue legal action. In other words, proper records might not have been kept and the lack of such records might now prejudice the prospect of recovery. The Auditor General made that very clear in three parts of his report. That was not picked up on in the Audit Committee meeting and it was reported by only one Sunday newspaper. It seems to me that that is the most serious unresolved issue about the whole Holyrood project. I would like to know exactly how the group will be accountable to Parliament.

I would like to make a few other brief points. First, I am extremely concerned that there is a prevailing mood that we want to get on with building a new Scotland instead of talking about a building in Scotland. We all want that, but it should not be at the expense of the truth coming out and legal action being pursued. Nothing must be swept under the carpet—that is what has bedevilled the project all along.

Secondly, on a separate matter, I was concerned that in the recent reporting of security problems it was not made absolutely clear that we all respect and are grateful for the work of the security staff and that whatever the failings have been they have certainly not been by the staff. I would be interested to know about the financial aspects of the staff, because I understand that they are now on shifts of 12 hours, four days on and four days off, which might have involved a change in working patterns. I would like to know what the Presiding Officer has to say about that.

My final point—as far as I can see, it was not reported in this morning's coverage—is that if a private company operating in this building does not put cash in the bank, the first question to be asked is why not and why did it leave the cash hanging around in the safe. I really cannot see how the Parliament's security could have any responsibility for that. That is what I told the press yesterday; that is what has not been reported today, presumably because it does not fit in with various agendas. I just wanted to put that on record and I hope that all members agree with the broad tenor of my remarks on that point.

The Convener: I certainly do not think that there is an issue of the responsibility lying with the staff of the Parliament.

On the issue that you raised about legal costs and how action on that will proceed, Paul Grice gave us various assurances in June. In the context of the assurances that he provided, it might be appropriate to seek more clarification about the mechanisms through which the assurances can be delivered, as it were, to the Parliament and this committee. That might be a framework in which we can proceed with the matter that you raised.

Dr Murray: Migration is pretty much complete now and it is worth recording that although a lot of us had concerns about how that would operate, it has in fact seemed to operate extremely efficiently, because of a huge amount of work by an awful lot of staff working in different departments of the Parliament. An awful lot of people have had to work very hard over the recess period to make migration successful.

The Convener: That is a good point. Given that this is the opening committee meeting in which we can deal with such matters, perhaps it is appropriate for us to place on record our thanks to all those responsible, particularly the staff of the Parliament, for ensuring a smooth migration and the efficient functioning of the Parliament to this point.

John Swinburne: We should include a proviso. It is logical that if, instead of tons of material being sent all over the country, that material had been stored in a warehouse in Edinburgh, the cost could have been an awful lot less.

The Convener: The point about the staff's effort should be noted and placed properly on record, if members agree. I see members nodding.

Dr Murray: There is a detailed schedule of snagging. I wonder whether the snagging issues, as they develop over the next few months, will be reported to Parliament in any form. Will they come to us or to the Audit Committee?

The Convener: They would probably come in detail to the SPCB, which would have responsibility for them. I presume that if financial issues arose, they would come here in the context of the bi-monthly reports that we should get.

Do we agree to note the report and send off a memo?

Jim Mather: I have a couple of comments to make. I note the narrowness of the range between the low end-range and the high end-range for the total cost. The question is whether we can assume that that convergence is a sign that there is confidence about the final total. It is now just over a year since we asked the Holyrood progress group to produce a statement. The group did so

on at least a couple of occasions, but it has fallen into not so much disrepute as total absence. We asked for a statement of the original cost plus inflation by package with a comparison of that with the final cost, a statement of the difference and an explanation. I like to think that that at least would be resuscitated towards the end of the process.

The Convener: That is a fair point for us to make.

Margo MacDonald has just joined us. I am afraid that you have missed our discussion up to now. If there is any issue that you want to raise, you have the opportunity briefly to do so.

Margo MacDonald (Lothians) (Ind): I am really sorry. We made inquiries this morning and I thought that I had come in time. I apologise, convener.

The Convener: We are galloping through our business a bit quicker than usual.

Margo MacDonald: Well, you should have slowed up a bit.

Mr Brocklebank: We are raising our game, Margo.

Margo MacDonald: Is it this painful? I liked the old way.

I have two specific issues, which are wrapped up in the general approach. The Presiding Officer has talked about a completions committee—is that what it is called?

The Convener: Yes.

Margo MacDonald: Do we know the personnel on that committee? It is not the same old faces, it is?

The Convener: No. We have picked up on that issue and are asking for clarification about various issues relating to the committee. We can reasonably ask for the names of its members.

Margo MacDonald: My second point is more general and concerns something that is puzzling me. I have worked late on one or two nights over the past week or two, so I am aware of the work that is being done 24 hours a day. I find it hard to believe that we can say categorically that we are going to stay within the stated end figure. Judging by the number of people who are working and the sort of work that they are doing, I would have thought that huge overtime payments would be merited. I am told that a lot of the workers are travelling through from Glasgow, which adds to the cost. I find it difficult to see how we can put an end cost on the work. I am not complaining; I am just asking why we are doing that.

The Convener: That is similar to an issue that was raised earlier in the committee. We will write

to the Presiding Officer seeking clarification on several issues that have been raised. We will then report back to members of the committee. If you would like to be copied into that, we can get that response to you.

Margo MacDonald: I would, yes. Thank you.

Committee Away Day

11:28

The Convener: Agenda item 4 is consideration of a paper that minutes decisions that the committee made at its away day. We will also consider some papers that have been produced by our adviser, Professor Arthur Midwinter, on efficient government to supplement our discussions on the away day. I ask members to deal with the recommendations that are made in the paper, which are largely to do with the committee's pattern of working and its future business. The recommendations are set out in the briefing paper on working practices and the future work programme. Members have discussed the matter extensively, and I ask for agreement on that.

Members indicated agreement.

The Convener: There is one issue for clarification. The third bullet point under item 7 of the future work programme is:

"To incorporate issues surrounding capital spending".

That should say "planned capital spending" across the portfolios. The issue that was raised was really the planning and co-ordination of capital spending across the portfolios—not the fact that money is spent, but how effectively that spending is planned and co-ordinated.

Fergus Ewing: Could I ask a question about that?

The Convener: Yes.

11:30

Fergus Ewing: I am not sure how directly it will affect me because I do not know whether I will be a member of the Finance Committee for that much longer—

Jeremy Purvis: Shame.

Fergus Ewing: Counselling will be available, Jeremy.

I wanted to raise a point about the future work programme in relation to planned capital spending. One of the growing concerns about financial issues is just how much the private finance initiative is costing Scotland. Can the figures for all the PFIs be presented to the committee, as well as a clear statement of how much it will cost to pay for those gigantic mortgages during the years ahead? Could we ask the Executive to give us the figures on that?

The Convener: We can ask for an update. The Executive produced those figures about 12 months ago.

Fergus Ewing: The figures would have to include not just those PFIs that the Executive is initiating, but those in education and health for schools and hospitals. All those figures should be brought together so that we can see the whole picture and how much we will have to pay back.

The Convener: That is reasonable.

On relocation, we have the report from Mr Scott that came out yesterday. Is there anything else that we should say about that?

Susan Duffy (Clerk): In light of the response for the debate tomorrow, and given the fact that the committee is considering its future work programme, the committee might want to consider whether it wants to factor in some additional sessions on relocation. The deputy minister, in his response, offered to clarify and confirm the issues with the committee as guidance is developed.

The Convener: I suspect that we might well do that. In my view, we have received an interim response and there are certainly issues that we will want to pursue. Are members agreed that we should factor in some sessions on relocation?

Members indicated agreement.

Fergus Ewing: The report was an interim report, in the same way that the Fraser report will be when it is published tomorrow.

The Convener: We wanted to take up with the Executive several issues concerning the content of financial memoranda. We have discussed that, so I assume that members will be content if I write a letter to express our concerns about the quality of the evidence that is used to underpin financial assumptions and the information regarding wider initiatives in the Executive in particular. We should note formally our agreement that we want to scrutinise financial statutory instruments when a large cost would follow on the enactment of a bill. The Executive would not then be able to get around the financial memorandum process by putting off the cost analysis until a later statutory instrument was laid. We will advise the clerks and raise the issues about members' bills that we mentioned in correspondence with the Executive. Are we agreed?

Members indicated agreement.

The Convener: Thank you.

Next we will consider the papers from Professor Arthur Midwinter, which update us on developments since the stage 1 budget report. The papers are very interesting. There is also a supplementary report on efficiency targets. Professor Midwinter can add to what is in the papers before I invite questions from members.

Professor Arthur Midwinter (Adviser): When I was preparing for the meeting yesterday, I realised

that we now have a number of papers relating to the matter, so at the last minute I produced a set of notes for myself to talk across the papers. When members leave the meeting, they should have a clear indication of where there is factual agreement and of the areas that are contested.

At the away day, we decided that we would seek agreement with the Executive on how the process would be managed, how progress monitoring would take place and how the Executive would report to the Parliament on its performance on the matter. In addition, because of the conflicting statements that have been made in the past fortnight from within the Executive, it is probably important to add the process to the list of things that we should discuss with officials in the first instance, so that the committee gets full and proper information when ministers come to see us.

I shall summarise across all the papers that we have. There is a paper on Gershon, one on the efficiency targets and a supplementary note. The scale of growth from the spending review is 3.5 per cent per annum. Let us be quite clear about the fact that, from that spending review, Scotland did not get any efficiency targets from the Treasury. The Treasury cannot set efficiency targets for Scotland. As the committee's adviser, I would like to say that there is no financial imperative for those efficiency targets. There is no financial reason why the Executive has to pursue the targets at this time, given the fact that the 3.5 per cent real-terms increase is still historically the highest in the post-1976 era.

Statements were made initially about the fact that there would be no job loss, and then reports appeared in the press saying that there might be job loss. I tried to clarify that with my contacts in the Executive before coming to the meeting, and the latest advice that I have is that, although the Executive has no target for job loss—unlike the UK spending review, under which each department has a target for the number of jobs to go—it may nevertheless be necessary, in order to reach the savings target, for there to be job loss. The position is not as clear cut as saying, "There will be no job loss," or "There will be job loss." The Executive is saying that it may be necessary to have job loss in order to meet the savings target.

There has been confusion about the target. Statements were made initially that the target was £500 million in total. Then, according to reports in the press, the target was 2 per cent per annum over three years. In my supplementary blue paper, I have done the calculation for members to show what 2 per cent per annum over three years would mean in real terms, and the total is £1,450 million, not £500 million. Suggestions that the Executive target is tougher than Gershon seem to me not to be grounded in the data that are in the public

domain. The figure for cash savings from Gershon is around 4.4 per cent of the budget in Whitehall, and the target for Scotland is 1.96 per cent of the departmental expenditure limit.

We should be clear that, although the initiative is being presented as Scottish, the areas that have been identified for potential savings are precisely the same areas that were identified by Gershon—procurement, back-office reform, transactional services and looking at policy funding and regulatory regimes. We are aware, for example, that there will be a merger of the two funding councils for higher and further education. From a total spend of £1,300 million, the councils between them spend £8 million on administration, so I am as sceptical as ever about the system's capacity to deliver savings if it focuses only on administrative costs. In particular, because £3 out of every £4 goes on staff costs, I am sceptical about the capacity for reaching the savings target without impinging on staff costs.

The committee must ensure that it agrees with the Executive a rigorous and transparent approach to reporting performance, so that the committee can monitor not only progress against the targets but the impact on jobs and services. To date, I still have doubts about the feasibility of the targets and the discussion has been largely at a level of vague generalisation. Only when the papers that come before us get down to specifics can we make a serious judgment about the potential for meeting those targets.

The Convener: Thank you very much.

The papers that you have given us are useful, at least in setting the terms of what the committee needs to do. It is important, though, to focus on the timescale. The Minister for Finance and Public Services will be before us in early October, and there are a number of issues arising from your paper on which we will be able to question him. I assume that we will get further information about the efficiency targets and processes that are involved as part of the spending review announcement, so there will be more detail then.

Of course, we have just agreed to have an inquiry into efficient government, so in a sense we are mapping out a whole year—or certainly six or seven months—of analysis of the issues. We will be able to get down to details and test the claims that are being made and the parameters that you have highlighted. We could be convinced by the Executive but, to summarise what you said, the issue is that we are not convinced yet, on the basis of the information that we have.

Jim Mather: I make a plea for clarity. The papers are helpful, but I am struggling with some of the data in the one entitled "Budget Process 2005-06 - Supplementary Note on Efficiency

Targets". The final sentence in paragraph 2 states that there would be

"a total savings target of £21.5 billion"

down south—then the percentages flow in. I am struggling in audit-trailing those percentages home to roost to understand their basis. The 7.3 per cent is—

Professor Midwinter: Over three years.

Jim Mather: The cash saving element would deliver 4.4 per cent over the three years.

I amplify my plea for clarity in relation to paragraph 3. I am, sadly, more numerate than literate and I would appreciate the percentages being laid out in a tabular form so that I could get my head round them and start to differentiate between the 1.96 per cent and the 2 per cent and between the annual figure and the figure over three years. I totally accept that Arthur Midwinter has an absolute grasp of that, but I do not.

The Convener: We will work towards greater clarity. Obviously, as the Executive releases data, that can be taken forward.

Dr Murray: I found the papers helpful, if somewhat concerning. If Professor Midwinter is saying that there is no financial imperative to the efficiencies and that they are not necessary, why on earth are they are being made? Is it just because people think that efficiencies must be a good idea? Has a rigorous analysis has been done on the level of efficiency savings that are possible or desirable? Paragraph 4 in the supplementary note on efficiency targets states:

"I raised my concerns with Finance Co-ordination and learnt that their current assumption is that all of the £500m will be in cash-releasing savings."

Unlike the UK Treasury, finance co-ordination is not assuming that 40 per cent of efficiencies will be about doing things better—being more efficient in terms of output, but not necessarily saving money. I am slightly puzzled by that. Do you think that 100 per cent of the savings will be cash releasing?

Professor Midwinter: Like you, I am not certain that that information is accurate. It is the most recent that I have received, although I have received information that there would be non-cash-releasing savings as well, through more productive use of time. The principle needs to be cleared up with the Minister for Finance and Public Services when he comes before the committee in October. As I understand it, the latest position is that the £500 million will be in cash savings. I am not 100 per cent sure why that is the position, but I understand that one of the reasons given is that some of the potential savings that were identified in Whitehall—those that are about rationalising back-office functions, supervisory regimes or

whatever—do not apply in Scotland because the Parliament inherited an Executive that was already a single department. For example, one of the recommendations in England is that every department should have a procurement office, but the Scottish Executive already has a procurement office, so it is saying that some things have been done already.

Dr Murray: It sounds almost as if the possibility that the process could be improved has been ruled out.

Professor Midwinter: My view is that any manager in the public sector who is worth his salt will be looking for these things on an on-going basis. It is in the interests of the programme manager to release the resources to the front line. Some of the examples that we have been given—for example, ensuring that policemen's time is more productive, which I mentioned at the away day—probably would have happened anyway. They have just been rolled up into an initiative. It would be idle to speculate on the motivations behind that at this time. We should pursue it with the Minister for Finance and Public Services. However, I still have doubts as to whether the Executive is looking for non-cash-releasing savings. I have heard two different versions.

11:45

The Convener: It is up to the committee to ask the minister that question when he comes. We are just flagging that up as an issue for us to take forward.

Professor Midwinter: If they have been reported accurately, the statements from the ministers in the press conflict.

Jeremy Purvis: Your update of developments paper states:

"The Scottish Budget ... will not be affected by the Whitehall efficiency reviews."

What happens if the Whitehall efficiency reviews do not bring about the savings that are wanted? My understanding is that the Chancellor of the Exchequer's announcement was predicated on the targets being met and funds being released. If the targets are not met, the cash will not be put into front-line services, so potentially we will not get the consequentials. Is that right?

Professor Midwinter: That is not the case in Scotland. I do not know whether that approach has been adopted in England. The statements to which you refer are vague on that point. The position in Scotland is that, under the devolution settlement, the block grant is transferred. If, for example, our attempt to save £500 million was not successful, the totals would not be affected at all. All it would mean is that fewer resources would be

released for redistribution within the budget. There is no way in which, having determined what the allocation will be through the agreed Barnett arrangements, the figures can be altered. We have our three-year figures in the spending review. The assumption is that any savings will simply be diverted into front-line services. The committee has a crucial role to play in monitoring that.

I do not know the position in England, but I would not be surprised if it is not as you think it is. You seem to think that, if the targets are not met in England, the spending programme might have to be adjusted. I am not sure that that is the case. It is definitely not the case here, because I have cleared it with officials.

Jeremy Purvis: How do we find out? It is important.

Professor Midwinter: I am not the adviser for the UK spending review.

Jeremy Purvis: No, but I am seeking advice.

Professor Midwinter: I can check with finance co-ordination, which will know the position in England. However, the position in Scotland is that we get the Barnett transfer, we have the totals and the budget and, if the savings targets are not met, the money simply will not be released to front-line services.

Jeremy Purvis: But we are dealing with the Barnett consequentials from an announced programme, predicated on efficiency savings as part of the review that the chancellor announced. If the review south of the border is unsuccessful, inevitably the money will not be put into public spending south of the border, so we will not get the consequentials.

Professor Midwinter: Once the figures are set for three years, that is it.

The Convener: The issue that you raise, Jeremy, would come up at the next spending review and would depend on the profile of savings. Currently, the figures have been set on the basis of three years. There might be internal adjustments south of the border within that three-year period, but the overall settlement for us has been set on the basis of a single projection.

Jeremy Purvis: So it is ring fenced.

The Convener: Yes.

Professor Midwinter: I agree that the information in the UK spending review is not clear on this matter, but my expectation is that the Westminster Government will operate to a similar set of rules to ours. I cannot believe that it has set three-year figures but will adjust them if savings targets are not achieved. That would not be in keeping with the strategy of trying to strengthen

long-term planning in the budget. We do not know, but we will pursue the matter. I will send a note to the committee after I speak to officials.

Mr Brocklebank: I am sure that Arthur Midwinter would not like me to put words into his mouth, such as that he is "openly sceptical" about the chances of achieving the Executive's targets without significant job losses. He would not be able to say that, but it is what I would say.

Paragraph 16 of the update on budgetary developments states that the problem is exacerbated by the fact that

"staff costs account for 50% of the Scottish Budget".

In other words,

"the savings will all have to be made in the £13 billion of other costs in the Budget".

The real efficiency target in percentage terms is therefore far bigger than the Executive says if it means to achieve the target without job losses.

Professor Midwinter: That is accurate. In my broad experience, it is very difficult to deliver significant savings in public sector budgets if the staff cost element is excluded.

Mr Brocklebank: You go on to make the point that, as local government and the health service together account for more than £15 billion of spending and as both those services have gone through structural and organisational reform, a lot of the savings should have been achieved in any case. Yet again, that makes achievement of the targets that much more difficult.

Professor Midwinter: Savings assumptions were built into both reorganisations in the past decade. We are now talking about the scope for sharing the funding of services between councils, trusts or boards rather than saving by merging them, which is what happened in the two rounds of reorganisation.

The Convener: A point that occurs to me is that, to some extent, part of the scepticism comes from the relatively limited budget that is assigned against administration. It is possible to envisage savings from some kinds of administrative rationalisation that affect other budget lines and what might be budgeted for as operational procedures—I am thinking of time saving and pooling certain kinds of job that are not narrowly within the administrative category. We must pursue those issues with the minister. We must ask whether that is what he means, or whether he means something different.

Professor Midwinter: My job was to interpret what the Executive said publicly. What was said publicly was that the savings will be made in cutting waste in duplication and bureaucracy, but I have doubts.

The Convener: We must pursue what the Executive means.

John Swinburne: I take it from what we have heard so far that there is, as Ted Brocklebank indicated, a degree of scepticism or fear about the authenticity of the figures. Arthur Midwinter does not give me the impression of being a happy chappie about the information that he has received, and we rely heavily on his guidance. We have now moved from the primary Parliament into the secondary Parliament—we have gone up a scale. I know that it is against his thinking, but surely until such time as we have fiscal autonomy in Scotland, we cannot get our teeth into the figures that really matter—we are working on the periphery. Does Professor Midwinter have any thoughts on that?

Professor Midwinter: You may say that, but I could not possibly comment. I do not want to answer that specific question, because it is outwith my remit and my position is well known anyway. On what you say about getting the feeling that I am not a happy chappie and about the lack of clarity in the information, what I am totally signed up to is the underlying promise of devolution to deliver a more transparent system. Every now and then, there is a hint that we feel that we are not getting the full picture in some of the information that is provided. There was a similar episode a couple of years ago when the money was being double and treble counted. The Executive accepted the committee's recommendation and stopped doing that for a while.

I am certainly sceptical about whether the savings can be delivered and, in particular, about whether they can be delivered without impinging on staff costs. Although it is easy to describe people who work in central bureaucracy as bureaucrats and so on, what they do in supervising the operation of services is crucial to all the aspirations that we have for the delivery of those services. Seventy five per cent of the costs of the administration budget are staff costs, so if there are to be job losses, we need to know why and what the impact will be on services. If there are to be no job losses, the chances of delivering the target recede. You are correct to say that I am not a happy chappie.

The Convener: We need to be cautious about extrapolating too much from limited information. We do not have the full set of information about what the Executive intends to do. Before we reach final judgments on any of these matters, we need to probe the Executive along precisely the lines that Arthur Midwinter is suggesting, to get a detailed indication of what the Executive is proposing. It will then be up to the committee to make a judgment about whether that is feasible, realistic or otherwise.

Fergus Ewing: The supplementary note exposes the Executive in various ways. It contains a mass of contradictions. The paper destroys the claim that the Scottish Executive's efficiency targets are tougher than those of Whitehall. There is also the vacillation and confusion between the Minister for Finance and Public Services and the First Minister about whether or not there should be job losses. That seems wholly unacceptable, given that we are talking about people's livelihoods. On a good day, the Executive's financial statements amount to a guddle; on a bad day, they amount to a boorach. That is what we are facing.

I would like to ask Arthur Midwinter about the process by which we can and should seek to ensure that public money is not wasted and is not used to little or no effect. Over the past year and a bit, I have argued that money has been wasted. I will give one example of that. I do not think that it is correct for public money to be used to pay people 10 grand to relocate their jobs and then to pay them another 10 grand a year later—in the case of Scottish Natural Heritage, that is not a good use of public money. I give that example, as it is easy to make statements without backing them up.

What concerns me about the general process is that targets are to be set for each department. Presumably that means that the top civil servants or the chief executives of quangos will be asked to provide reports and to identify where savings could be made. That seems to sum up the whole problem about devolution: it is top-down decision making. The one thing that we can be sure of is that directors will still get their bonuses, while the staff get the P45s.

I ask Professor Midwinter whether he thinks that it would be sensible to incorporate in any drive to use public money properly a whistleblower approach, whereby employees—ordinary folk working in the public sector—are asked to say where money is being wasted. This is an important question about process. Nowhere in the Executive's paper do I see mention of any involvement by ordinary working people in identifying where money has been wasted. My own day-to-day experience suggests that those people often know best, and better than management, where money is being wasted. If we could encourage whistleblowing as a useful civic responsibility and duty, would not that form a useful part of any process of identifying efficiency savings effectively?

Professor Midwinter: That is provided that staff are careful not to be in breach of their contract, which is often a problem when it comes to the restrictions that are placed on them. I certainly agree that there is a strong case for widespread staff involvement in considering such matters,

rather than its simply being left to the top managers to deliver and impose from above. I think that there is a wider case for involvement by members of the Parliament in considering the detail before it is delivered.

The Convener: That is exactly the role of this committee.

Professor Midwinter: Yes, in effect: to consider the options and gauge their acceptability.

Fergus Ewing: You raised a serious technical point, which might concern Executive staff: that people might be in breach of contract if they speak out. Is it not incumbent on the Executive to give clear guidance, so that people who speak out will not be in breach of their contract, will not be victimised or punished and will have immunity, and to say that any contracts that say otherwise should be altered?

The Convener: I am not sure that that is a question for Arthur Midwinter to respond to. It is more of a political point, which members could address.

Professor Midwinter: As a point of principle, the Executive ought to encourage widespread involvement from its staff in such matters. Every member of staff will be affected by the changes.

Fergus Ewing: But staff will not be able to be involved if they might be in breach of contract. Rightly, they will be afraid to speak out. That has been the curse of whistleblowing throughout the ages. Every week, we read in the press about people who have been punished for speaking out. Unless we—and, more to the point, the Government—give a lead, whistleblowers will still be discouraged from performing the useful function that we surely all agree should be part of any process of this nature.

12:00

Jeremy Purvis: As a point of fact, the ministerial statement that announced the efficient government review made it clear that the review was of all staff within all departments. From discussions with staff in my local authority at all levels, including the chief executive, I know that all staff are able to submit proposals for the better management of the front-line services that they run. There are clear processes for contacting Audit Scotland if people have fears about horrendous waste of public funds from an auditing point of view. As far as the efficient government review is concerned, staff involvement both was mentioned in the statement and is being put into practice.

The Convener: We have probably exhausted all the questions that we had for Arthur Midwinter. Jim Mather has one final question.

Jim Mather: Paragraph 13 of Arthur Midwinter's paper "Budget Process 2005-06: Update on Developments since the Stage 1 Report" focuses on procurement. I want to ventilate my concern about that issue. Having been on the receiving end of mailings from information and communications technology companies, print associations and people involved in public-private partnership deals, I wonder whether those procurement savings might damage Scottish suppliers. If the procurement contracts go to bigger suppliers elsewhere, there might be a double whammy. Not only might the private sector in Scotland contract by some of that £200 million but, if the savings are made effective in the south rather than up here, the size of our public sector in Scotland might continue to diverge from that of the UK. That could badly damage our competitiveness. Given that the recent International Institute for Management Development survey showed that Scottish competitiveness is 36th out of 60—by comparison, the UK is 22nd—I worry that there might be a further divergence on all those counts.

Professor Midwinter: As I am not an expert on procurement, and given the way in which the issue has developed, I think that the committee might want to seek the expert help and research that was discussed at its previous away day. The £200 million saving is a big chunk of the £500 million target. Given that the Scottish Executive already has a procurement office, the situation here is not like that in England. We ought to get some decent background papers on how the process operates at present and on the scale of the arrangements that are involved. I see where Jim Mather is coming from, but I am not sure that, under the rules that govern the allocations of contracts, the Government can take into account the kinds of things that he has mentioned. However, we ought to get some clarity about the process by bringing in some expert help.

The Convener: We have agreed to launch an inquiry on efficient government and the clerks will produce a paper to set out the inquiry's parameters. Perhaps Jim Mather's points can be incorporated when we consider the remit of that inquiry. I thank Arthur Midwinter for all his work.

As we agreed previously, we will move into private session for the final agenda item, which is consideration of the appointment of a budget adviser.

12:03

Meeting continued in private until 12:15.

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