

FINANCE COMMITTEE

Tuesday 20 February 2007

Session 2

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FINANCE COMMITTEE

4th Meeting 2007, Session 2

CONVENER

*Ms Wendy Alexander (Paisley North) (Lab)

DEPUTY CONVENER

*Mr John Swinney (North Tayside) (SNP)

COMMITTEE MEMBERS

*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

*Mark Ballard (Lothians) (Green)

*Derek Brownlee (South of Scotland) (Con)

*Malcolm Chisholm (Edinburgh North and Leith) (Lab)

*Gordon Jackson (Glasgow Govan) (Lab)

*Jim Mather (Highlands and Islands) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

COMMITTEE SUBSTITUTES

Shiona Baird (North East Scotland) (Green)

Mr Alasdair Morrison (Western Isles) (Lab)

Alex Neil (Central Scotland) (SNP)

John Scott (Ayr) (Con)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

George Lyon (Deputy Minister for Finance, Public Service Reform and Parliamentary Business)

John Nicholson (Scottish Executive Finance and Central Services Department)

John Williams (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Rosalind Wheeler

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 20 February 2007

[THE CONVENER *opened the meeting at 10:03*]

Interests

The Convener (Ms Wendy Alexander): I welcome the press and public to the meeting. As usual, I ask everybody to turn off their pagers, mobile phones and BlackBerrys.

No apologies have been received, but there has been a change in the committee's membership: Dr Elaine Murray has resigned from the committee and has been replaced by Malcolm Chisholm. I thank her for all her work; she has been a member of the committee since the start of the session. I think all members would agree that she was one of the most diligent and assiduous members in pursuing the work of the committee, and that she enhanced the committee's reputation through many of our deliberations. I thank Elaine Murray on behalf of us all.

I also welcome Malcolm Chisholm. It has been a long time since Malcolm has been an ordinary committee member, so we look forward to the insights that he can bring to bear, based on his extensive ministerial experience.

The first item on the agenda, as per usual when there is a new committee member, is to invite that member to declare any relevant interests.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I have no relevant interests.

Subordinate Legislation

Budget (Scotland) Act 2006 Amendment Order 2007

10:05

The Convener: Agenda items 2 and 3 are on subordinate legislation. The committee does not often have to consider subordinate legislation, although we do it annually in relation to the spring budget revision. I welcome to the committee George Lyon, the Deputy Minister for Finance, Public Service Reform and Parliamentary Business. The minister is accompanied by John Williams and John Nicholson, from the finance expenditure policy division of the Executive.

Under consideration today is a draft Scottish statutory instrument that seeks to amend the Budget (Scotland) Act 2006. As well as the draft instrument, the committee has before it the budget documents that set out the background to the proposed revision, a further note of explanation from the Executive, a procedural note from the clerk and a letter from the Scottish Commission for Public Audit.

Members will see from the agenda that consideration of the instrument will, under standing orders, be split into two parts. First, I will invite the deputy minister to make brief opening remarks. I will then give members the opportunity to ask the technical questions that we have allocated, which will allow officials to answer any technical points. Officials are not permitted to speak during the subsequent debate on the motion so, once the technical questions have been asked, I will ask the minister to move the motion, which seeks approval of the instrument, after which the motion will be debated. The pattern in the past has been that most debate has taken place around the earlier technical questions.

The instrument is subject to the affirmative procedure, so it cannot come into force until it has been approved by Parliament as a whole. The committee will therefore today debate the motion in the name of the minister, which asks the committee to recommend approval. If we recommend approval of the instrument, it is for the Parliamentary Bureau to lodge a motion seeking Parliament's approval for the instrument.

After that rather lengthy procedural explanation, I invite the Deputy Minister for Finance, Public Service Reform and Parliamentary Business to make a brief opening statement. I remind him not to move the motion at this point.

The Deputy Minister for Finance, Public Service Reform and Parliamentary Business (George Lyon): As I am sure the committee knows, the Budget (Scotland) (No 4) Bill, which I

was at the committee to discuss a couple of weeks ago, was about our spending plans for 2007-08. Today's budget revision is the last opportunity that we have to amend the budgets for the current financial year—2006-07.

I will draw the committee's attention to a few of the highlights of the revision. The most significant change is an adjustment of £227 million to Scotland's share of United Kingdom national insurance contributions following a revised estimate. However, the funding is outside total managed expenditure, so there is no reduction in health spending. It is simply a change to the balance of the source of the funding.

The other significant change relates to a one-off £52 million transfer from Her Majesty's Treasury to fund the housing stock transfers for Argyll and Bute Council and East Dunbartonshire Council.

There are also the usual increases in annually managed budgets for pensions, which result from changes in estimated requirements. The increases amount to about £68 million, which is also funded by HM Treasury.

Major transfers into the central unallocated provision include £41 million from the Justice Department, £23 million from the sale of the Scottish Agricultural Science Agency building at East Craigs and £17 million for flood prevention schemes that are to be carried out in 2007-08.

Calls on the central reserve amount to £142 million. Major items include £43 million to fund schools estate building improvements, which will be targeted at areas such as staff bases, pupil toilets and playgrounds; £19 million to fund capital projects that are to be carried out by Scottish Enterprise and Highlands and Islands Enterprise; £12 million for modernising private sector housing, which is to be targeted at people with disabilities; £15 million to improve hospital waiting times; and £10 million for Napier-related costs that arise from the judgment on slopping out in prisons.

A note of the other significant changes was sent to the committee by my officials prior to the meeting. Details of the miscellaneous minor items can be supplied on request—I hope that we will concentrate today on the major changes. I will do my best to answer questions. Officials are here to deal with technical issues.

The Convener: Thank you. The note that was provided by the Executive's finance co-ordination department was helpful, so I thank officials for it.

I will open the questioning. In his opening remarks, the minister noted that as a result of a reduction in resources other than accruing resources of £126 million, that amount will be added to the end-year flexibility funds that are held by the Treasury. The finance co-ordination note

does not mention the total amount of funds that the Treasury holds. As of March 2006, it was £1.4 billion, but there was obviously some draw-down for this year. What will be the net effect of the spring budget revision on the cumulative EYF funds that are held by the Treasury? I am more than happy to allow an official to answer that, if required.

George Lyon: I will begin, but John Nicholson might have something to add. The extent of the cumulative funds that are held at the Treasury will not be clear until the outturn in June, when the final calculation of the Executive's total spending is made. Any underspend will determine what the remaining balance of funding at the Treasury will be at that time. That is when we will discover what the impact has been on those funds.

John Nicholson (Scottish Executive Finance and Central Services Department): The EYF balance at the Treasury works in such a way that we cannot add to it during the year. The flow from the Treasury is one way—if we want to draw down money in the course of the year we can do so, but we cannot send money back to the Treasury. The only change to the balance of £1.4 billion that we had at the start of the year has been the draw-down of £150 million at the autumn revision.

As the convener pointed out, the net effect on the budget of the spring budget revision is a reduction of £126 million. Although on the face of it that is a reduction—as the minister pointed out—the £227 million adjustment to the national insurance income figure is not a reduction in funding. It just means that the Scottish consolidated fund will fund £227 million less of the health budget and that national insurance income will fund £227 million more of it. Although the net figure is a reduction of £126 million, if we leave aside the national insurance figure for a moment, we find that the spring budget revision will result in the Scottish budget going up by £101 million. We are funding £227 million less and national insurance receipts are funding £227 million more. I hope that that makes sense.

George Lyon: When one reads the tables, it is hard to understand that although there appears to be a reduction in the budget, the spending will increase. We might have to reconsider how such information is presented in future years because it is difficult to understand where the flow comes from. The recalculation of the total that will be raised at United Kingdom level from national insurance contributions will result in a flow into our funding in Scotland. The position is that we need to draw down less from Westminster to meet our total allocated spending. Perhaps we should consider how we could present that information more clearly in future years.

The Convener: In March last year, the Treasury held £1.4 billion of EYF funds, which included the draw-down of £150 million for the autumn budget revision. There is no change to that figure as a result of the spring budget revision.

John Nicholson: Nothing has changed since the autumn revision. We have drawn down £150 million since the start of this financial year—that is the present position.

Mr John Swinney (North Tayside) (SNP): I just want to be absolutely clear that, at the moment, the Treasury holds £1.454 billion minus £150 million.

John Nicholson: That is right.

Mr Swinney: I did not follow what you said about there being a net growth figure of £101 million following the spring budget revision. Will not that be drawn down from the remaining net balance at the Treasury of £1.4 billion minus £150 million, which is about £1.3 billion?

10:15

John Nicholson: The brief guide that we have provided to help members follow the figures includes a table that shows that £68 million of the £101 million came directly from HM Treasury as an increase in funding for pensions, and that £52 million came from the Treasury for housing stock transfer. Most of that increase of £101 million is additional new funding from the Treasury for those two items. Beyond that, the money that went into the central unallocated provision has been recycled within Scotland to meet new pressures, which has meant that we have not had to put money into the CUP and draw down extra resources from the Treasury.

Malcolm Chisholm: My question relates to page 17 of the spring budget revision and is about environmental protection, which the minister mentioned in his opening statement. The table on page 17 shows a proposed reduction in operating costs of £22 million, which follows a reduction of £38.4 million in the autumn budget revision. I am concerned that the bulk of the latest reduction—£19.4 million—falls on flood prevention and coastal protection. I and other members want to know first what impact that might have on provision of protection against flooding and coastal erosion and secondly, looking ahead, whether next year's budget figure of £43.6 million is now realistic. Is it assumed that the money that has been taken out will be returned to the budget next year? As next year is the final year of the current spending period, is it the last year in which that money could be returned to the budget, or could it be carried over for even longer? That would not be desirable, given the urgent need for flood prevention schemes along the Water of Leith and in many other places.

George Lyon: The figures simply reflect slippages in the capital budget. The money will be required in 2007-08 to fund the construction costs of new flood prevention schemes in Dunfermline, the Braid burn, the Water of Leith, Galston and Forres. The figures are purely a reflection of slippage in capital projects.

Malcolm Chisholm: I should know the answer to this, but will the money have to be spent next year or could it be carried over into 2008-09? We do not want that to happen but, theoretically, would it be possible?

George Lyon: That would be considered as part of the next spending review, but I hope that the capital projects will go ahead in 2007-08 and that the money will be used then.

Malcolm Chisholm: I suppose that this question is more general. Can the CUP be carried over into the next spending period or does it have to be utilised next year?

George Lyon: A spending review will take place in the summer of 2007-08, the outcome of which will affect spending decisions. From year to year, money can be put into the CUP if there are slippages in programmes and moneys that have been allocated are not drawn down. We hope that the flood prevention projects will be delivered and that the money that has been held back and transferred will be drawn down next year to meet their costs.

Mr Swinney: We have been round the houses a few times on the issue. This year is not the first year in which money—on this occasion, £17 million—has been taken out of flood prevention. In last year's spring budget revision, £59 million that had been allocated to flood prevention and coastal protection was removed from the CUP. Inability to spend the money that Parliament allocates to flood prevention activities is becoming a cumulative problem.

I have two questions. First, what reassurance can you give us that the ability exists to spend money that has been properly allocated to flood prevention and coastal protection? The Executive does not seem to be able to process schemes, or to find a way in which they can be processed, so that public expenditure that Parliament has voted for can be spent. Secondly, what component of the CUP, cumulatively, is to be spent on flood prevention and coastal protection?

George Lyon: I will deal with your first question. I understand from the Scottish Executive Environment and Rural Affairs Department that most of the slippage is down to delays in the planning system. Although I would like the money to be spent in the year for which it was allocated, it is difficult to see how we could make that happen when planning is the problem. If other schemes

could be funded that had proceeded through the planning system ahead of time, we would be in a position to switch some of the money to them. I do not think that I can guarantee that the money will go out the door if the problem relates to the securing of planning permission at local level, which is a matter for local authority planning processes to determine.

John Nicholson will deal with the second, more technical, question.

John Nicholson: I do not have details on how much of the CUP comes from ERAD for flood prevention and coastal protection, but we can find out that information and provide it to the committee.

Mr Swinney: It would be helpful to have a breakdown of how many such transfers to the CUP have been made in each financial year of the current parliamentary session. Our concern is that transfers have been made every year from flood prevention and coastal protection into the CUP, but the money never seems to be spent. Before we know it, we could end up in the territory to which Malcolm Chisholm referred, whereby the spending review miraculously finds those moneys, which have been haemorrhaged off into the ether and have not been spent on the purpose for which they were voted by Parliament despite the clear need for flood prevention schemes in a number of areas. I would like a breakdown of those allocations.

I also seek assurance from the minister that moneys that have been transferred into the CUP from flood prevention and coastal protection budgets during the current parliamentary session will be spent on flood prevention and coastal protection in the future.

George Lyon: As I understand it, ERAD would have transferred those moneys into the CUP with the intention of drawing them down when planning permission has been secured for the capital projects and they can go ahead. The moneys are clearly allocated to specific projects. However, we will provide the information that has been sought.

Mr Swinney: I would be grateful if the minister could clarify whether moneys for flood prevention and coastal protection that have been transferred into the CUP will be spent on flood prevention and coastal protection in the future. We are hearing today that the money is waiting to be spent on schemes for the Water of Leith and Forres; the last time, we were told that it was waiting to be spent on, I think, a scheme in Elgin. We need to know whether that money will be spent on flood prevention and coastal protection or simply become a component of a large sum in the Treasury that ends up being spent on other priorities.

George Lyon: Clearly, if the Executive has said to local authorities that it is committed to financing flood prevention schemes, that commitment will be carried through as soon as planning and development of the projects have been completed. As I said, according to our information, the majority of such delays are due to planning problems. We shall provide further information to the committee.

Mr Swinney: I have a final question on the issue. Although some schemes may be held up by the planning process, local authorities have also said that it is often difficult for them to find from within the resources that are at their disposal the necessary operating resources to commission the studies that are required to design flood prevention schemes. In other words, they need resources to prepare a scheme before the Executive grant for 80 per cent of the costs kicks in. For example, a study that is currently being carried out in a village in my constituency is costing £40,000. For a local authority budget, that is a sizeable sum of money for consultancy work on flood prevention.

Given that £59 million in the previous financial year and £19 million in the current financial year—nearly £80 million in total—have been transferred from flood prevention budgets into the CUP, will the Government consider making some of those moneys available to be bid for by local authorities that want to undertake consultant studies to identify the appropriate steps for developing flood prevention schemes?

George Lyon: I think that the appropriate mechanism for local authorities that want to carry out such work would be the extra £60 million in capital that we made available to local government this year. Basically, that money is for local authorities to use on spend-to-save projects. I would have thought that that capital—which is extra capital over and above what was originally planned—would be a useful source of finance to meet such costs.

Mark Ballard (Lothians) (Green): In his responses to the questions from Malcolm Chisholm and John Swinney, the minister stated that inability to spend the money is due to problems in obtaining planning permission. I am well aware of the problems with the Water of Leith scheme. There is general disappointment among local residents that, after the disastrous floods in 2000, no progress has been made on improving flood prevention in that area. I understand that that is due partly to the fact that the Scottish Rugby Union has appealed to Scottish ministers against the proposal. Is there any co-ordination between the responsibility that Scottish ministers have for planning and the timetabling arrangements that they put in place for spending in the budget? In

particular, given that the current plans for 2007-08 are that £43.6 million will be spent on flood prevention, what impact will the £19.4 million transfer into the CUP have on that budget figure?

George Lyon: If we were to link spending of public money on particular projects with decisions on planning, we would be entering pretty serious territory. Planning is a quasi-judicial process—

Mark Ballard: My question was about the timetabling of spend.

George Lyon: I suspect that any indication or notion that the need to spend budgets had influenced the timing of decisions on planning matters could leave ministers' decisions open to judicial review. I have no doubt that Mr Chisholm could give us greater clarity on such matters. The Executive makes moneys available to local authorities, which are, as the sponsors of the projects, responsible for ensuring that they make as speedy a response as possible to the needs of constituents who wish measures to be put in place to prevent flooding in the future. The responsibility for ensuring that that happens lies with local authorities.

Mark Ballard: Does the minister have any information on whether the £43.6 million for flood prevention in next year's budget is a realistic figure?

George Lyon: The figure would not have been included in the budget if ERAD expected that it would not be spent. The indications must be that the money will be drawn down. However, if such schemes are subject to problems with planning approval, that is outwith the control of ministers.

Mr Frank McAveety (Glasgow Shettleston) (Lab): I refer the minister to page 24 of "Scotland's Budget Documents: The 2006-07 Spring Budget Revision". I see that funding for closing the opportunity gap, which was previously reduced by £18.3m in the autumn budget revision, is to be reduced again. The original budget figure was £27.4m, but the total is now only £6.4m. How does the minister justify that change? Where is the money being spent instead? If it is not spent under the heading that is given, where has it been reallocated to?

The Convener: The reference is to the closing the opportunity gap table on page 24 of the accompanying document.

John Nicholson: The information that we have suggests that the money that has been transferred from promoting social inclusion will be used to meet the costs under closing the opportunity gap in respect of the new futures fund. I think that that is a similar project, but it is dealt with under a different budget head. Although the community regeneration fund will be the vehicle that is used

for distributing that money, the spending still has a closing-the-opportunity-gap emphasis, so we are not taking the money away from its original purpose.

Mr McAveety: The 2007-08 budget for promoting social inclusion is given as £27.95 million. If the money has been transferred to another budget head, why is the figure for 2007-08 as high as it was in previous years? Will that money not be spent or committed?

John Nicholson: Is the question about why the budget for promoting social inclusion is higher next year than this year?

Mr McAveety: I am just pointing out that the money is still included in the promoting social inclusion category for next year, whereas we are being told that the money is now being spent under another budget head.

John Nicholson: All I am saying is that the decision has been taken that, this year, an element of the promoting social inclusion fund will be distributed through the community regeneration fund for new futures fund work. I am not an expert on the Development Department budget, but it may be that the decision will be taken that there will be a different focus on how those funds will be used next year. Unfortunately, I cannot clarify that today.

10:30

George Lyon: We can certainly provide further clarification.

Mr McAveety: That would be helpful.

Malcolm Chisholm: Page 26 shows a big increase in the schools budget, which I am sure we all welcome. The revised figure for schools is £202.5 million, which compares with £113.9 million at the ABR and £93.7 million in the draft budget for this year. The increase is therefore £150 per pupil. While we welcome that, it is reasonable to ask whether that scale of increase in expenditure at this stage in the financial year can be spent wisely. In the first instance, it would be nice to be reassured that it can be spent at all. It is a big increase so late in the year.

George Lyon: We have been assured that the money can be spent in this financial year. That is why it was allocated to projects that were already on the ground and ready to go. The money has been allocated to go out of the door before the end of this financial year and we look forward to seeing the improvements in the facilities as a result.

The Convener: I take you to page 35, on Highlands and Islands Enterprise, and the proposed £11.3 million increase in the growing business budget line, which brings it to £35.2

million compared with an original budget of £18.6 million. That is a pretty substantial increase and I am interested in an explanation of what is driving it.

George Lyon: As I understand it, that money is for a number of regeneration and research capital projects. Renewable energy is another capital project area to which the money has been allocated.

The Convener: It would be helpful if you could write to the committee again.

George Lyon: Do you want a breakdown of the figure?

The Convener: That would be helpful, yes.

George Lyon: Again, the projects are ready to go during this financial year and money was allocated on the basis that bids had been submitted to the Executive for extra funding.

Derek Brownlee (South of Scotland) (Con): Schedule 3.3 of the Justice Department section, on page 62, shows some movement, or transfers in and out, in the capital schedule. What, if anything, do those figures mean for prison capacity? Presumably a reduction in the capital spend is in some way related to either a delay or a—

George Lyon: It is slippage in the prison estate's capital programme. That is where the bulk of the money that is being transferred back into the CUP comes from.

Derek Brownlee: Is it possible to quantify what that slippage means for the number of available prisoner places?

George Lyon: I do not have the details of whether the slippage is caused by the two new prisons that are being built or by other works in the prison estate. I could clarify that.

Derek Brownlee: The concern is more about whether project slippage has led to a reduction in the number of available prison places rather than—

George Lyon: I am not aware that that is the case, but we will clarify that for the committee.

Derek Brownlee: That would be useful.

In your opening statement, you mentioned compensation for slopping out. There are two budget lines for compensation. Does the £16 million relate only to slopping out or are other areas of compensation included?

George Lyon: It is just for slopping out and it is a mix of compensation and legal costs.

Derek Brownlee: How many prisoners are eligible for that compensation?

George Lyon: I would have to seek that detail from the Justice Department.

Derek Brownlee: It would be useful to know that.

George Lyon: Yes. I am perfectly happy to supply that information.

Derek Brownlee: I want to move on to a more general point on pensions. From memory, I think that we covered the issue this time last year. The introduction on page 2 says that the £68 million transfer—I appreciate that that is also coming from the Treasury—is

“mainly due to a change in the actuarially provided standard contribution rate”.

I do not expect you to have this detail with you today, but could you break down how much is due to that rate and how much is due to other factors?

On a more general point, and to help us understand the whole public sector pensions issue, it would be helpful if you wrote to us with a schedule of what the standard contribution rates have been since 1999 for both schemes that are mentioned on page 2, and others that might be under the Executive's control.

My final point is really for clarification. I see that some consultations are being conducted on both schemes. As I understand it, the teachers scheme is rather more advanced than the national health service scheme. However, in last week's announcement from the Executive, there was a provision that would allow the Executive to vary the contribution rate, and it was implicit that it could be different from that in the United Kingdom or England and Wales schemes. It would be interesting to know the extent to which that would give the Executive the ability to reduce or increase the cost of the pensions to its budget. At the moment, it looks as if everything is being driven by national decisions.

George Lyon: Most pay deals are national and that is what drives decisions about employer contributions versus employee contributions. As I understand them, the regulations are to allow further flexibility, given that we administer pensions through the Scottish Public Pensions Agency.

Derek Brownlee: It is possible that I misunderstood what came out last week.

George Lyon: I will write to you and clarify that particular point. The committee will be aware that pay deals are done at a UK level and we implement them through regulation and administer them through the SPPA.

Derek Brownlee: On a plain reading of last week's announcement, it seemed to me that, if they did not have it already, ministers were going

to have the power to vary the contribution rate, and that would have an impact on the Scottish budget.

George Lyon: That is an implicit part of the deal that was reached on the schemes for teachers and the NHS. Employer and employee contributions will have to rise to meet the on-going commitment. That, coupled with the raising of the retirement age, means that a complete new deal is being negotiated and we have to provide the regulations to implement the consequences of that deal in Scotland. We will write to you to clarify the point if that would be helpful.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): I will take you out of doors on this fine day. Forestry is one of our slowest-growing industries, although it is important. Page 88 shows an increase in the operating costs of Forest Enterprise Scotland of £5.4 million to £28.5 million. Is there a specific reason for that? It is a technical question, but I would be happy if I could get a response either today or in writing.

George Lyon: I do not think that we have any detailed information on that.

John Nicholson: Part of the reason is a transfer between Forestry Commission Scotland and Forest Enterprise Scotland for grants for woodlands in and around towns and climate change programme funds, which Forest Enterprise Scotland will be taking forward on behalf of Forestry Commission Scotland.

Mr Arbuckle: Yes, but the figure for woodland grant is £4 million and not £5.4 million.

John Nicholson: That is what I am saying: the woodland grants are a large part of the increase.

Mr Arbuckle: The Environment and Rural Affairs Department budget on page 14 shows a massive reduction in the spend on agricultural and biological research. Is there a specific reason why the revised figure is now £38.9 million, a drop of £5.4 million?

George Lyon: I see the budget line but—

Mr Arbuckle: The top table on page 14 shows the reduced spend on agricultural and biological research as £5.4 million.

George Lyon: I will provide the committee with a detailed explanation for that. It is a reduction in the requirement by the Scottish agricultural and biological research institutes, but I do not know the underlying reason for it.

Jim Mather (Highlands and Islands) (SNP): I have a small question about Scottish Water. I see that it has released a further £2.7 million of operating expenditure. Where has that money come from? We can see where it is going—to Scottish Natural Heritage and to miscellaneous minor transfers.

George Lyon: Those are private water grants.

Jim Mather: It is interesting to note that in the spring budget revision there has been no change on the capital front, but there was substantial change in the autumn budget revision. In essence, there is net new borrowing by Scottish Water of £21 million. That suggests that 96 per cent of the £500 million a year that Scottish Water is spending at the moment is being paid by current water charge payers. What investigation has been carried out into why that has happened?

George Lyon: As I explained at a previous Finance Committee meeting, the Executive acts as the banker to Scottish Water. If there is slippage in its capital programme, Scottish Water does not draw down as much money in one year as it originally budgeted for. Although there may be highs and lows in the relationship between the money that is raised from customers and capital draw-down, the latter will be drawn down in future years to cover the capital budget. In other years, when there are big draw-downs, the situation will be the reverse of that which the member has described. That is why there can be fluctuations each year. The only other way of proceeding would be to turn the system around and to make Scottish Water draw down the money that has been budgeted for. It would then be necessary to vary customer charges each year to cover actual spending. That would not be a sensible way of running Scottish Water's affairs.

Jim Mather: You may not agree with me, but this looks like prima facie support for Jim and Margaret Cuthbert's hypothesis, which suggests that charges have been set at an overly high level. At a time of huge capital expenditure—£500 million a year—96p in the pound is coming from current water charge payers.

George Lyon: I have explained that that is the result of slippage in the capital programme. We, as the banker to Scottish Water, have to hold moneys until such time as the capital programme moves. As the member is aware, the programme in Dunoon was for the sewerage system to be completed in the quality and standards II period, but it has been delayed until next year. That means that £20 million has slipped in the capital spending that was allocated for the first four years of Scottish Water's life. The committee examined the Cuthberts' assertions in detail and came to the conclusion that they were unfounded.

Jim Mather: How much capital expenditure is taking place this year in Scottish Water, compared with the £500 million that is in public parlance?

George Lyon: I can provide the committee with an outturn figure once we reach the end of the financial year. The outturn figure, rather than the budgetary figure, is key.

Jim Mather: I look forward to that.

The Convener: Sarah Boyack will give evidence to the committee on water at our next meeting, which will take place a fortnight today. It would be helpful if you could write to us in advance of that.

George Lyon: I will provide the committee with indicative figures for capital spending in writing, if that would be helpful.

Mark Ballard: I refer you to page 74 of the budget revision document, which notes a change of £5.7 million to capital funding of administration, information technology and accommodation capital projects. However, at the bottom of page 4 of the brief note that you helpfully provided there is a reference to

“Additional funding for IT and accommodation capital projects”

of £9 million. Do those figures refer to the same projects?

10:45

John Nicholson: Of the extra £8.7 million, £5.7 million is for capital projects and £3 million is for resource costs associated with those. The transfer out is not for the same projects. A number of IT projects and capital programmes are included in the administration budget. Some are slipping, but others are going ahead. We are talking about different things. Money is not coming in and going back out for the same purpose.

Mark Ballard: Do the figures relate to cost overruns or to work being brought forward?

John Nicholson: They relate to human resources and IT projects, and to some building refurbishment work that has been brought forward from 2007-08.

The Convener: I thank members for their contributions and move to the formal part of the proceedings—the debate on the motion on the statutory instrument. I invite the minister to speak to and move motion S2M-5528. If members have any further questions, there will be a brief debate before the question on the motion is put.

Motion moved,

That the Finance Committee recommends that the Budget (Scotland) Act 2006 Amendment Order 2007 be approved.—[George Lyon.]

The Convener: We have debated fully the technical aspects of the order. Members have no further questions.

The question is, that motion S2M-5528, in the name of Mr Tom McCabe, on the Budget (Scotland) Act 2006 Amendment Order 2007, be agreed to.

Motion agreed to.

The Convener: As I indicated, we are required to report to Parliament on the instrument. I intend to agree the text of our report by e-mail. It will be brief and will indicate simply that we have reached agreement. We are required to report by next Monday, 26 February. The clerks aim to issue the report to members tomorrow, to be cleared by Friday. If we have not heard from members by Friday, we will assume their assent. I hope that members are content with that approach, which will allow us to meet next Monday's deadline.

I thank the minister and his officials for joining us this morning. We will consider the final item on our agenda in private.

10:47

Meeting continued in private until 11:47.

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