FINANCE COMMITTEE

Tuesday 18 November 2008

Session 3

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FINANCE COMMITTEE
27th Meeting 2008, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Jackie Baillie (Dumbarton) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Joe FitzPatrick (Dundee West) (SNP)
*James Kelly (Glasgow Rutherglen) (Lab)
*Alex Neil (Central Scotland) (SNP)
*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Roseanna Cunningham (Perth) (SNP)
Murdo Fraser (Mid Scotland and Fife) (Con)
Lewis Macdonald (Aberdeen Central) (Lab)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

John Scott (Ayr) (Con)

THE FOLLOWING GAVE EVIDENCE:

Jim Conlin (Scottish Water)
Derek Croll (Scottish Parliament Directorate of Resources and Governance)
David Faichney (Scottish Environment Protection Agency)
Jeff Green (Angus Council)
Robert Hopewell (North Ayrshire Council)
Ian Leitch (Scottish Parliament Directorate of Resources and Governance)
Tom McCabe MSP (Scottish Parliamentary Corporate Body)
Chris Spray (Scottish Environment Protection Agency)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Allan Campbell

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 18 November 2008

[THE CONVENER *opened the meeting at 14:00*]

Subordinate Legislation

Budget (Scotland) Act 2008 Amendment Order 2008 (Draft)

The Convener (Andrew Welsh): Good afternoon and welcome to the Finance Committee's 27th meeting in 2008, in the third session of the Scottish Parliament. I ask everyone to turn off their mobile phones and pagers, please.

Agenda item 1 is consideration of the draft Budget (Scotland) Act 2008 Amendment Order 2008, which provides for the autumn revision of the 2008-09 budget. The order is subject to the affirmative procedure, which means that Parliament must approve it before it can come into force.

The motion in the name of the Cabinet Secretary for Finance and Sustainable Growth, John Swinney, invites the committee to recommend to Parliament that the draft order be approved. Before we debate the motion under item 2, we will have an evidence session to clarify any technical matters or to allow explanation of details while officials are at the table. Officials cannot participate in the debate once the motion has been moved.

The Subordinate Legislation Committee considered the draft order and raised a minor point, which the Scottish Government has given a commitment to correct in the spring budget revision. Members have an extract from the Subordinate Legislation Committee's report in their papers.

I welcome to the committee the cabinet secretary, who is accompanied by the head of finance co-ordination in the Scottish Government, John Williams, and Stuart Dickson, who also works in finance co-ordination.

I invite the cabinet secretary to make an opening statement to explain the draft order, if he wishes to do so, and remind him not to move the motion at this point.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Thank you, convener.

The revision is the first of two routine in-year revisions of the budget—the second is the spring budget revision, which will be laid in late January. As in previous years, a pattern of authorising budget revisions in the autumn and spring is required, as the details of our spending plans inevitably change from when budget legislation is passed.

This revision mainly takes account of changes that were detailed in the draft budget. However, as a result of recent events, further changes to the budget are likely over the next few months as we try to help the Scottish people and businesses in Scotland respond positively to the current economic downturn. Those changes will be reflected in the spring budget revision in January.

The proposed changes in the autumn budget revision are largely technical. They will result in an apparent decrease of approximately £216 million in the approved budget, from £31.3167 billion to £31.101 billion. However, that is net of additional funding of £156 million from national insurance contributions, which is treated as income for the purposes of parliamentary control. The overall effect of the change will be that gross expenditure will decrease by £60 million. I will explain the detail of that in a moment. The £156 million increase in national insurance contributions affects only the source of funding; it will not change the total amount of spending that we are able to commit to Scotland this year.

Apart from the national insurance contributions change, the largest revision to the Budget (Scotland) Act 2008 is another technical change—the funding that is required for national health service and teachers' pensions will be reduced by around £100 million. That reduction is the result of a change in actuarial factors, particularly in the discount rate that is applied to future pension scheme liabilities.

If we set aside those technical changes, which amount to £256 million, the budget has, in fact, increased by approximately £40 million as a result of Whitehall transfers, consequentials that were announced in the 2008 budget and increased income from non-domestic rates.

As I discussed with the committee in Ayr last week, we have brought forward £30 million of expenditure in the affordable housing investment programme in 2008-09, with a further £70 million to be brought forward in 2009-10. As well as providing affordable housing, that money is intended to provide additional support to our house building industry during the current economic problems.

The other significant transfers within the Scottish block are mostly due to the realignment of budgets within and between portfolios. They include the transfer of budgets from the enterprise agencies to the newly created Skills Development Scotland

and from Communities Scotland to the administration budget, as the agency's functions have been brought into the Scottish Government as part of the simplification of the public sector landscape, and staff are now paid from that budget.

The brief guide to the autumn budget revision that my officials have prepared sets out the background to, and details of, the main proposed changes. As previously detailed, a total of £300 million will be drawn down from our end-year-flexibility balances at Westminster's winter supplementary, as agreed as part of the comprehensive spending review 2007. That will deliver a planned reduction in our published balance of just over £952 million to approximately £650 million. As members will be aware, I have successfully negotiated access to £574 million of the remaining balance over the next two years to supplement our tight CSR settlement.

No further new announcements or initiatives appear in the figures that the committee is scrutinising today. The revisions reflect decisions or announcements that have already been made.

The Convener: Thank you, cabinet secretary.

Alex Neil (Central Scotland) (SNP): Have you managed to make any progress with the United Kingdom Treasury on the fossil fuel levy? Obviously, we are restricted in what we can do with that, given that it affects the departmental expenditure limit.

Monday's forthcoming pre-budget report by the Chancellor of the Exchequer is at the top of everybody's mind. If additional money becomes available as a result of any Barnett consequentials from any announcements on Monday, how quickly do you hope to get it through? Would you be able to spend much of it in the current financial year?

John Swinney: Ministers have continued to make their representations to the UK Government about the opportunity to deploy the resources from the fossil fuel levy. Those funds sit outside the UK Government's finances, so we are looking not for more Treasury money, but for money that is held in different financial instruments through the Office of Gas and Electricity Markets. Our argument is that there is an opportunity, particularly in the current economic climate, for us to use those resources without putting strain on the UK Government position. So far, we have not secured agreement from the UK Government to use those resources without a consequential reduction in the departmental expenditure limit, but we continue those discussions. I hope that the UK Government may be in a position to agree to our request in due course.

On the pre-budget report, we await the details of the chancellor's statement. We have had no prior notice of it—nor should we have—so we will make a judgment once we see any Barnett consequentials that arise from it. It is difficult to predict whether we will see any that will have an effect on this financial year. Although such consequentials are possible, spending that resource would get more challenging the closer we get to the end of the financial year. However, there is a broad range of capital infrastructure programmes that could be expedited if resources became available. We will make a judgment on that once we see the detail of the chancellor's statement on Monday.

Alex Neil: My other question is on the enterprise budget and the redistribution of resources from Scottish Enterprise to Skills Development Scotland. The amount that is being transferred is roughly 35 per cent of the total Scottish Enterprise budget and 21 per cent of the Highlands and Islands Enterprise budget. Does that difference in the percentages reflect the additional all-Scotland responsibilities that Scottish Enterprise carries for the whole network?

John Swinney: That is a factor, but the difference also tends to reflect the actual spend that was deployed by each organisation in this area of activity. We have taken the resources that were being deployed on skills development, training development and careers development by each organisation and combined them into Skills Development Scotland's budget to reflect current practice and current budgets.

David Whitton (Strathkelvin and Bearsden) (Lab): The Scottish National Party Government has made much of the fact that it is bringing forward £100 million for affordable housing spending and that local government is going to produce £40 million of that. Did you have any discussions with the Convention of Scottish Local Authorities or any individual local authority before you decided to raid their budgets to do that?

John Swinney: We have to be careful about our language, Mr Whitton. There is no raid involved here. There is a transfer from one financial year to another of resources that are available to be spent. I appreciate the willingness of portfolio budget holders and our colleagues in local authorities to make those resources available so that we can accelerate the affordable housing investment programme. My officials had discussions with local authority officials and I had discussions with the political leadership of COSLA before announcements were made. Those discussions have continued subsequently, so that the detailed arrangements to make the transfers possible are put in place.

David Whitton: Given that you have had those friendly discussions about how local authorities are going to help you with affordable housing spending, is there any information on where that money will come from? What negative impact might there be because you have brought money forward?

John Swinney: The resources that are coming from local government relate largely to capacity to borrow that authorities were not going to utilise. Essentially, they represent a fuller use of borrowing capability. We are using the opportunity created by the provisions that are available to local authorities to enhance expenditure on affordable housing. That is the source of the resources that are available.

David Whitton: You have said on several occasions that you had a very tight settlement from Whitehall this year. Have you had the opportunity to read the Centre for Public Policy for Regions briefing note, which is mentioned in at least one of the newspapers today? Commenting on your budget for this year, the briefing note states that

"The tightness puts a strain on … existing funding"

and suggests that you might have to consider moving

"away from universal to targeted benefits."

Do you have any sympathy with that view?

John Swinney: I have sympathy with one part of it, which is that it is a validation of what I have been saying for a considerable time: this has been a very tight financial settlement. I am grateful to the Centre for Public Policy for Regions for vindicating what I have been telling the Parliament for a considerable time about the scale of the difference in the financial resources that are available to the Scottish Government in this period, compared with the largesse that our predecessors had at their disposal.

David Whitton: Everybody knew that that was going to happen anyway.

14:15

John Swinney: I seem to remember that many people in Parliament disputed the analysis that I put to Parliament that this was the tightest settlement since devolution. I seem to remember members of Parliament—I cannot remember whether Mr Whitton was one of them—telling me that I had more money available than Donald Dewar ever had, which is a statistical fact, but it rather ignores the fact that the profile of expenditure increases has slowed up dramatically, compared with expenditure under the eight years of my predecessors.

As well as the 2008-09 budget that the Government is operating to, which has been approved by Parliament and is the subject of this autumn budget revision, there is the draft 2009-10 budget that is before the Parliament and which comprehensively answers the CPPR's questions on the Government's ability to afford certain programmes in the coming years. For example, the budget shows that in 2009-10, far from restricting free personal care for the elderly, the Government is putting £40 million more into that area to take account of the recommendations in Lord Sutherland's recent review.

I am grateful to the CPPR for acknowledging the fact that the Government is operating within a tight financial framework, and I look forward to its view being endorsed across the parliamentary spectrum. That is the context in which we bring forward our budget.

David Whitton: The CPPR points out that, because you have drawn down all your early years funding money, you are not leaving yourself very much room for manoeuvre.

John Swinney: We have planned a draw-down of resources over three years, and have negotiated that with the Treasury. I remind Mr Whitton of the shape of the three-year financial settlement that we received from the UK Government. In year 1, there is a 0.5 per cent increase above inflation; in year 2, a 1.6 per cent increase above inflation; and in year 3, a 2.3 per cent increase above inflation. The increase in the settlement has essentially been back loaded.

In response, we have used end-year flexibility to draw down £400 million in year 1; £300 million in year 2; and £174 million in year 3. Our approach reflects and balances out the profile of the funding that the UK Government has allocated to us.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I want to pursue the issue of housing investment. Last week, when the committee met in Ayr, you told us that the £20 million that will come from local authorities this financial year was

"borrowing capacity that local authorities did not propose to use."—[*Official Report*, *Finance Committee*, 10 November 2008; c 797.]

You have confirmed as much this afternoon.

However, the previous week, Nicola Sturgeon told the Local Government and Communities Committee that COSLA would ensure that its £20 million contribution would be made as a result of

"its ability to use identified slippage on capital projects".

Finally, according to the autumn budget revision document, the money will come from the revenue support grant. Surely all three cannot be the same thing.

John Swinney: The references to the revenue support grant and the ability to borrow are essentially the same thing—they are part of the same equation. I do not know the direct source of the remark that Mr Purvis has attributed to the Deputy First Minister, but the point is that some elements of the draw-down of resources to accelerate the affordable housing investment programme will come from slippage in other areas of the Government's capital programme. The money will come not from local authority capability alone but from other areas of Government.

Jeremy Purvis: I appreciate that you will not have the document to hand, but I can tell you that I was quoting from column 1317 of the *Official Report* of the 5 November meeting of the Local Government and Communities Committee. Referring to COSLA, the Cabinet Secretary for Health and Wellbeing said:

> "It finally agreed that contribution of £40 million on 24 October and it spoke to the committee about its ability to use identified slippage on capital projects to ensure that it can make the contribution."—[*Official Report*, *Local Government and Communities Committee*, 5 November 2008; c 1317.]

However, the first table on page 38 of the autumn budget revision document suggests that this year's £20 million contribution will come from revenue support grant.

If you are telling the committee that revenue support grant is the same as borrowing consent, I will acknowledge the point. If that is the case, however, we should seek more information from the Government about that, because I am not sure that, to a local authority, borrowing consent is necessarily the same as revenue support grant.

The money cannot be both slippage on local government capital projects and money that is being taken away from revenue support grant to local government—it simply cannot be the same money, can it?

John Swinney: As I said to you a moment ago, it is all part of the same equation. Revenue support grant will support some elements of local authority expenditure and programmes, and so will borrowing. It is all part of the parcel of local authority funding.

Slippage in capital expenditure could easily be described as a need to borrow less—it is the other side of the same coin. Why on earth would one borrow if one did not require the money for a capital programme? The point that I am trying to make is that the different classifications are part of the overall local authority financial settlement.

Jeremy Purvis: So the Government will know which local authorities have that slippage and are not borrowing, and therefore which authorities that resource is no longer available to in the current financial year.

John Swinney: The Government will have held discussions with COSLA and the relevant local authorities to ensure that the resources are in place to support the expenditure that is attributed to them in the autumn budget revision and in the Government's budget for 2009-10.

Jeremy Purvis: With regard to the revenue support grant money, it would be helpful to have more information from the Government on whether that is unused consent-to-borrow money. Your statement was very clear, but COSLA's view is less clear that the money comes from slippage in the capital projects.

The Convener: Given that Mr Purvis has raised a very specific point, perhaps the cabinet secretary could reply to the committee in writing.

John Swinney: I would be more than happy to do that, convener. It is clear from what I have said that I am happy to give further details to the committee.

Jeremy Purvis: Housing associations and local government are now looking at and submitting applications for the affordable housing investment programme. They need the security of knowing that the sum of money that the Government has promised is there.

John Swinney: We have just moved into different territory. Mr Purvis has now questioned whether the money will be available to support the propositions that the Government has put forward. That is a fundamentally different question—I do not need to reply to the committee in writing to confirm that the Government will have that money available: £30 million in 2008-09, and £70 million in 2009-10. Any local authority or registered social landlord that is waiting for certainty can be assured from what I have just said that that is absolutely the case.

Jeremy Purvis: I have a question on Skills Development Scotland. On page 47 of the autumn budget revision document, the figure for Skills Development Scotland is £194.7 million. Can you explain the difference between that and the figure of £176.3 million that was in the budget for 2008-09 and the draft budget for 2009-10? Does the figure of £176.3 million include the set-up costs, as the £194.7 million does?

John Swinney: Yes.

Jeremy Purvis: So it will not be on-going revenue for Skills Development Scotland.

John Swinney: If my memory serves me correctly, specific budget provision was stated in the 2008-09 approved budget for one-off set-up costs in relation to Skills Development Scotland.

Jeremy Purvis: Over how many years does that provision allow for the set-up costs to be spent? Does it all have to be spent within the current financial year?

John Swinney: If it was provided in the 2008-09 budget, it will have to be spent in 2008-09.

The Convener: As there are no further questions, we move on to item 2, which is the debate on the motion. The officials may remain at the table with the cabinet secretary, but they will not be able to speak on the record. I invite the cabinet secretary formally to move motion S3M-2764.

Motion moved,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2008 Amendment Order 2008 be approved.—[*John Swinney.*]

The Convener: I invite contributions to the debate from members. I should point out that, under standing orders, the debate cannot last longer than 90 minutes.

Jeremy Purvis: I will make this point briefly, as it is on the same housing point that we have already discussed. It is not purely a budgetary issue. As I understand it, COSLA might well have volunteered £20 million, and the cabinet secretary has made a commitment today that that £20 million—on top of the £9 million that has already been allocated—is guaranteed to be used for affordable housing under the affordable housing investment programme. What consequences might that have for other parts of the capital budget for this financial year?

It is still not clear in my mind whether that money is from local authorities not receiving the revenue support grant that they would otherwise have received, or whether it is money that authorities are not able to borrow during this financial year, although they might have borrowed money for associated spend on housing. The situation is confusing. I have spoken to representatives of housing associations in my constituency this week, and they are not clear about the source of the funding or the consequences.

Those concerns remain for me. The cabinet secretary has offered to clarify the situation in writing, and I am sure that that will be gratefully received by housing associations.

Jackie Baillie (Dumbarton) (Lab): This is an interesting set of circumstances, given the global economic downturn and its impact on the revision that is before us. Other members have already covered the point that EYF has been substantially allocated over the next few years, giving the Government very little wriggle room. However, third-party income of £200 million is forecast. Is that forecast kept under constant monitoring and revision? Given the economic climate, I suggest that the forecast is a reach too far, considering the likely amount of income to be generated.

A problem may also arise because of the success of Government officials: they are getting better at managing their budgets, so there are fewer underspends to reallocate. The cabinet secretary has estimated that there will be an underspend of £100 million this year, but is that still likely? I seek reassurances that, given the current economic climate and its likely impact on the Scottish budget, there will be opportunities to keep the figures under review.

The Convener: I invite the cabinet secretary to wind up the debate.

John Swinney: I say to Jeremy Purvis that I will happily provide details to the committee in writing, with any further clarification that is required. However, I repeat—this addresses the very essence of the issue—the Government's commitment that an additional £30 million of support will be available through investment in affordable housing this financial year. If a housing association is concerned about where that money will come from, all I can do is ask it to understand that the Government is giving a commitment that the resource will be available. The resource has been negotiated with local authorities and with other areas of Government, taking into account the contributions that those other areas are able to make to the provision. The resource is available.

I know that the Deputy First Minister and the Minister for Communities and Sport are considering applications for projects. They have already approved a range of projects that have taken their course, and further decisions will be made in due course. The Government has a clear agenda of action to boost investment in affordable housing, which will have a beneficial effect on the strain in the housing sector that has been caused by the private housing market difficulties. The Government is determined to pursue this opportunity to tackle the challenge of affordable housing in Scotland, which is why we have made the resource available. I confirm that housing associations and local authorities will be involved in the process of taking forward investment in affordable housing.

14:30

Jackie Baillie raised significant points about the financial management of the budget, and I take those issues very seriously. The current economic climate raises many challenges for public finances, and the pattern of requirements for public finance is changing. As she and committee members know, the Government allocated significant European structural fund and social fund resources over the summer to support employability projects in a range of different areas, including, if my memory serves me right, the West Dunbartonshire area. The demands on those employability projects will be significant as we see the inevitable increase in unemployment during the next few months.

We are in a dynamic environment and I assure the committee that the Government regularly monitors and considers budget issues. I regularly monitor financial information from all portfolios, and it is the subject of frequent discussion between me and the permanent secretary as the principal accountable officer. All aspects of our finances, whether they are sources of income or demands on programmes, are kept under review.

Of course, we inherited an overallocation in the budget of £240 million, which the Government has already reduced. In 2008-09, the overallocation was only £100 million, and we will reduce that figure over the spending review period. That is an essential element of ensuring that the Government spends the resources that are available to us. If we underspend, resources end up being locked away and cannot be spent on Scottish public services unless I can secure some further flexibility from the Treasury on the use of underspends. That is not a desirable position for us to be in. Of course, I will continue to negotiate on behalf of the Scottish Government, but it represents a limit on our financial flexibility.

I assure the committee that those questions are kept under regular review and consideration. If there are any changes to the position, I can update the committee when I come back to discuss the spring budget revisions.

The Convener: I thank the cabinet secretary for winding up the debate.

Motion agreed to.

That the Finance Committee recommends that the draft Budget (Scotland) Act 2008 Amendment Order 2008 be approved.

The Convener: The committee will communicate its decision to Parliament by way of a short report. The Parliament will then be asked to consider a motion on the instrument next week. Are members content for our report to be circulated and agreed by e-mail?

Members *indicated agreement*.

14:34

Meeting suspended.

14:35

On resuming—

Budget Process 2009-10

The Convener: Item 3 is consideration of the Scottish Parliamentary Corporate Body's budget bid for 2009-10. As committee members know, our main focus during the annual budget process is to scrutinise the Government's draft budget. However, the SPCB's budget is top sliced from the Scottish consolidated fund, so we scrutinise it and take account of it in our final report.

I welcome to the committee Tom McCabe MSP, in his role as portfolio member of the SPCB; Ian Leitch, director of resources and governance; and Derek Croll, head of financial resources. I invite Tom McCabe to make an opening statement.

Tom McCabe MSP (Scottish Parliamentary Corporate Body): Thank you, convener. Good afternoon, everyone, and thank you for the opportunity to present details of the SPCB budget for 2009-10. With your indulgence, I will preface my remarks on the specifics of the budget by explaining what has driven our approach to it.

The SPCB is aware that, especially in these difficult times, every pound that it spends must be justified and should be put to the best possible use. We are determined that the Parliament should continuously examine what it spends the money on, and how. We are always aware that that money comes from the Scottish consolidated fund—as you rightly say, convener—and we take the approach that, wherever possible, we should minimise our call on that fund. In the recent past, we returned £1.5 million to the fund, which demonstrates our approach with actions, not just words.

Our total budget submission for 2009-10 is set out in the letter from the Presiding Officer and shows an increase of 2.5 per cent compared with the current year. However, the directly controllable costs, which best underline our approach, will increase by 1.9 per cent in 2009-10. That increase is significantly below the latest retail prices index, which stood at 5.0 per cent until this morning—I think that it is now 4.5 per cent. It is only right to acknowledge that current forecasts are for inflation to fall significantly during 2009. However, economic forecasting is hardly an exact science, especially in these challenging economic times.

In the information that we supplied to the committee, we have highlighted comparisons with the current year's budget. A significant feature of the proposed revenue budget is the £1.6 million that has been set aside for the recommended perimeter security improvements to the

Parliament. As we explain in our letter, most of that expenditure—£1.3 million—was included in the SPCB's approved budget for 2008-09 and, therefore, does not represent additional funds required. However, because the Scottish budget is approved annually, the delay in incurring the project expenditure means that we must seek budgetary approval again for the financial year 2009-10. As we made clear last year, we have specific security advice that underpins our pursuit of that project. However, it is still a lot of money and, if the committee wishes, we would be happy to provide a private briefing on the security matters that lie behind the proposal.

The Convener: We thank you for the statement and now—

Tom McCabe: I have not quite finished, convener.

The Convener: I am sorry. I would hate to cramp your style.

Tom McCabe: Members will note that the SPCB's budget for 2009-10 includes provision for a new members' expenses scheme, which the Parliament approved on 12 June. The new scheme increased the amount that is provided for the employment of staff, as recommended by the independent review panel chaired by Sir Alan Langlands. We have made provision in this budget for the uprating of members' staff budgets.

I mentioned earlier the directly controllable costs, which equate to £46.6 million, or 45 per cent of the budget. As I said, we are determined to pursue opportunities to contain expenditure whenever we can. In that regard, since we last gave evidence to the committee, we have agreed to: closing the facility on Sundays, which frees up £250,000; savings of 2.5 per cent on staff costs, which equates to £590,000; and bringing tour guides in-house from October 2009, which will, over time, provide an on-going annual saving of around £30,000.

We have allowed for a £1.25 million contingency fund to cover unforeseen expenditure. Experience to date tells us that that is a reasonable approach.

Our proposed capital expenditure is £2.6 million, which is £0.8 million higher than last year. As members are aware, capital expenditure can vary significantly from year to year. The 2009-10 budget includes a planned technology refresh programme for desktop PCs and software, which was last undertaken in 2003. The estimated cost is £530,000.

As members are aware, the SPCB is charged with the oversight of commissioners and ombudsmen. The budget submissions of the various bodies now stand at £7.9 million, which equates to more than 10 per cent of the overall SPCB budget. The SPCB is acutely aware of the fine balance that it needs to strike between robust scrutiny and the operational independence that those bodies were given when Parliament established them. In that regard, I am grateful for the strong support that the Finance Committee has given us in recent years to help us to adopt a robust approach in our scrutiny of their budget bids.

As a result of the clear signals that were given to office-holders in the previous years' budget rounds, I am pleased to report that the budgeting process for the commissioners and ombudsmen has been relatively straightforward this year. The budget submissions from each of the office-holders were strongly justified and realistic. We can see a recognition that meeting agreed pay settlements and increments meant that non-staff costs had to be contained well below inflation. Overall, the proposed budget for the ombudsmen and commissioners shows an increase of 2.4 per cent.

Following the Crerar review, the Scottish Government is taking forward proposals to simplify the scrutiny landscape in Scotland's public sector. In conjunction with that, the Parliament has agreed to set up an ad hoc committee to consider the functions of office-holders falling within its remit. The SPCB will feed its views on the present structure and governance arrangements to that committee at the appropriate time and will be mindful of any costs involved.

I want to place on record the SPCB's appreciation for the work that was done by the chief executive and his team in preparing the SPCB's 2009-10 budget submission.

That concludes my remarks. I hope that I have managed to convey a sense of the approach that we are taking towards this budget and that we are conscious of the need for robust and continuing improvement. My colleagues and I will, of course, do our best to answer any questions that the committee might have.

The Convener: As a member of the SPCB in the first session of the Parliament, I can understand the complexities of the matters that you describe. I thank you for the clarity of your presentation.

14:45

Alex Neil: I welcome Mr McCabe back to the Finance Committee.

In the *Sunday Herald*, we read about the management report that members were not given any prior notice of. I believe that the report cost £23,000. Has the SPCB seen and discussed the report? If so, has it reached any conclusions on it?

What are the financial implications of any recommendations in the management report? Why, in a Parliament that has, as its guiding principles, the notions of accessibility, transparency, accountability and openness, have members of the Parliament actively been denied access to a report that was about the Scottish parliamentary service?

Tom McCabe: The SPCB has discussed the report. The chief executive gave a full report to the SPCB. The report was made available in full to any members of the SPCB who wished to see it. I availed myself of that opportunity; I cannot say whether other members did likewise, but the facility was there.

On the financial implications, members are aware that any staff restructuring can have cost implications. The emphasis that lies behind the restructuring is not only to produce a more effective management team in the Parliament, but—this was not the driving force, but cost is always a consideration—to find ways in which we can rationalise costs and minimise our call on the consolidated fund. It is expected that, over time, costs will be recovered and there will be a net saving to the Parliament.

With regard to publication, I know that some members—including you, Mr Neil—have made requests to see the report, and have been given a summary of the report. In due course, the report will be made freely available to all members and to the general public. However, it is important to stress that we are dealing with people, and a negotiation process must take place. Such issues are always sensitive, and might impact on different individuals in different ways. It is important that the management team that is charged with the overall operational management is allowed to carry on its work in a way that is sensitive to people's needs and to the issues that can crop up in discussions of matters such as these. That is why the full report has not been made available at the moment.

It is important to stress that the consultants' report that has been mentioned is only one part of what lies behind the management restructuring and the corporate change programme. There are various components, such as the extensive members' needs survey that took place earlier this year. Around 100 of our 129 members took part in face-to-face interviews, which, as members know, is an extremely high response rate for any survey—I think that the rate would have been higher but for the summer recess.

The report is not a blueprint for the actions that will take place. It is a commentary on the management of the Parliament. It says some extremely positive things about the way in which the Parliament is managed, and casts the Parliament in a good light in comparison with similar establishments around the world. That said, it is important to state that by no means will the actions that are taken as part of the corporate change programme entirely mirror the recommendations in the consultants' report—it is not the sole driver of any action that will be taken.

Alex Neil: The only part of the report that members have seen is the part that appeared in the *Sunday Herald*, which was the first place that members saw it. That is hardly the right way for the Parliament to do business with its own members.

Secondly, Tom McCabe said that the report will be made available in due course. Will he define "in due course"? Thirdly, I suggest that the report should be made available to members of the Finance Committee because it has a direct bearing on the corporate body's budget.

It is outrageous that the report has not been made available to all members. It would certainly be unacceptable if it was not made available to members of the Finance Committee before we are asked to approve the corporate body's budget.

Tom McCabe: I repeat that we are dealing with people and the issues can be sensitive. The definition of "in due course" is that the consultants' report will be made available, along with other elements that guided the corporate change plan, when the plan has been effected. The Finance Committee and others will be able to take a view on the actions that were taken and to set that against the recommendations or the commentary in the other pieces of work.

The SPCB is elected by the entire Parliament. The four individuals on the corporate body are elected to represent members' needs and are empowered with the responsibility to assist the corporate management team in its management of the establishment. To that extent, perhaps, members have to place a degree of trust in the people whom they elected, in the full knowledge that information will be made available in due course.

Part of our responsibility as the corporate body is to help our corporate management team, wherever we can, to do its job in the best interests of not only members of the Parliament, but the people of Scotland, who ultimately foot the bill.

Alex Neil: Members should be consulted before the report's recommendations are implemented. The time to show members the report is not after its recommendations have been implemented, but before that.

Tom McCabe: Given the sensitivity of the matters that will be discussed and implemented—given that they include people's jobs and futures—

I reiterate that it is difficult to do that in a wide arena. We cannot do such things by committee anyway, and I respectfully suggest that it would be nearly impossible to do them in a committee of 129. That is the reason behind the approach.

I can say to the committee only that there is nothing sinister here. I assure you that the corporate body will be vigilant in its pursuit of the publication of all information that is available at the appropriate time.

James Kelly (Glasgow Rutherglen) (Lab): The "Other Projects" budget line increases by 40.5 per cent from £802,000 to £1.126 million. The briefing notes include a helpful breakdown of the costs; I am interested in the budget for business continuity, which is £362,000, and the budget for the human resources change programme, which is £343,000. Will you give us a bit more detail on those?

Tom McCabe: Mr Croll and Mr Leitch will do that, but in general, the business continuity project is a pretty important piece of work that tries to ensure that we are prepared for any major unseen events that could disrupt the workings of the Parliament. Given some of the things that we have experienced in the past, it is important to ensure that, should something render this place unoperational—that is not very good grammar, but I think you know what I mean—the Parliament would be able to continue to work effectively.

Perhaps Mr Croll will deal with the first budget that you mentioned and Mr Leitch will deal with the second.

Derek Croll (Scottish Parliament Directorate of Resources and Governance): The budget for the business continuity programme has increased by £242,000 year on year. As Tom McCabe said, it is a programme to support the Parliament in the event of disruptive incidents. The reason for the big increase is that it is moving from the stage of scoping, consultancy and bringing plans together, which has been taking place this year, to the stage of implementing arrangements to protect the Parliament, which will take place next year. That will involve a lot of off-site facilities and infrastructure to support continued operations. That is the reason for the step change in the programme.

Ian Leitch (Scottish Parliament Directorate of Resources and Governance): As members know, the HR change programme is intended to ensure that our personnel function is properly resourced and is oriented to meet the Parliament's requirements.

Particular emphasis has been placed on support to members. All members have had the offer of support on employment issues, training, contracts for staff and setting up proper legal machinery for operating the pooled arrangements that members have in their groupings. A large number of members have taken up the offer, so there has been considerable involvement from personnel staff. That has happened on an ad hoc basis but, taking account of the members' needs survey, we realise that that is a big area of support that members require.

The HR change project has involved additional matters, such as realigning decision making. For example, until recently, directors were the only people who could dismiss members of staff—not that that happens often; it is a very infrequent event. However, plainly, we are running a business—it might be a political business, but it is a business, so we had to realign decisions to the optimum level in the staff organisation. In conjunction with trade unions and senior managers, a realignment process has taken place to ensure that the managers of the business areas manage and control those areas. That is in line with the corporate change programme, which has also been mentioned, which aims to ensure that senior management has a more strategic focus. That is one thing that has happened.

The majority of the 2009-10 budget for the HR change programme—57 per cent—comprises staff costs of £194,000, which are associated with temporary posts that have been established to manage and work on the programme. We should bear in mind that, in addition to the changes, which involve policy changes and training for staff, the regular core business must continue. Therefore, there is a bulge in the costs for the period of the programme, which will run from 2007 to 2010. A further £100,000 of the budget is for part of the capital costs of the new HR system. We have an old system that does not produce the statistical data that managers need to manage the business effectively. That information is not readily available. The procurement of the new system will straddle the financial years 2009-10 and 2010-11.

Jeremy Purvis: I have a brief question on the balance sheet, which is in schedule 5 to the SPCB's budget submission. I understand that the figure is a snapshot but, at 31 March this year, the creditors figure was slightly more than £14 million, which is projected to go down to about £10 million. The note says that that includes retentions and accruals, but can we have a bit more information, even if it is broad, about the components of the debt to creditors?

Derek Croll: The figure will come down from last year end to this year end principally because the Holyrood retentions are being unwound during this year. The final payments to contractors, which were accrued last year, have been paid and are out of the balance sheet. Beyond that, the figure stays fairly flat between 2008-09 and 2009-10.

Jeremy Purvis: I am still wondering why there is a figure of about £10 million.

Derek Croll: About half of that is accruals—anything that is paid after the year end that was due in the previous year. For example, it includes expense claims that are received after 31 March and are accrued back to the previous financial year. Also, for the first time, we have incorporated an accrual for holiday entitlement, as the international financial reporting standards require that to be reflected in the balance sheet. The figure for that is about £1 million. There are also trade creditors, which is fairly standard, and an element for tax and national insurance, which are paid at the following month end. A further element is about £2.5 million that is, in effect, the offset of the cash—the consolidated fund is shown as a creditor, which is really just part of Government accounting.

Jeremy Purvis: That is helpful. Within that £10 million, there will be a small element for outstanding bills to normal traders. What are the broad terms of the Parliament's payments policy? In the current economic context, is the corporate body revising the policy with a view to making payments more quickly?

Tom McCabe: I can safely say that, from day 1, the current corporate body has put an emphasis on ensuring that we pay our creditors timeously and within the agreed time limits. The percentage of creditors that we pay within 30 days has increased significantly. From memory, it is now about 96 per cent, which is a significant increase on previous performance. The corporate body has made the point strongly to the management team that, especially when businesses could be under pressure, we in the public sector have an obligation to ensure that they receive their money timeously and that they are not put under undue pressure because they are waiting for it.

15:00

Jeremy Purvis: I am grateful for that. It is interesting to hear that the Parliament is performing better than the Scottish Government. To use Mr Neil's words, it would be a scandal if that were not the case.

David Whitton: The submission states that the corporate body has "exercised considerable pressure" to restrict its budget, which

"has required difficult choices to be made".

Can you give us an idea of what those difficult choices were?

Tom McCabe: I referred to some of them in my opening remarks. There was a strong and lengthy debate over closing the facility on Sundays. We felt that the empirical evidence strongly justified that move, which saved £0.25 million, which is a fair amount of money in anybody's terms. We also examined the way in which we manage the filling of vacancies and the overall number of staff that we employ, which has shrunk slightly. That has produced a £590,000 saving. That is never easy—it is always easier just to carry on as usual. It would be nice to employ everyone if we could, but we are not in the business of doing that. Such measures are never easy, but they have generated meaningful savings.

The changes to the Parliament tours will, over time, save money. Some people were pretty content with the existing system, so it would have been easy simply to continue with the contract. However, we examined the contract and decided to make the change, not because we wanted to expand the internal empire, but because we could continue to provide a good service at a lower cost.

David Whitton: You have made those difficult choices, but the events budget has gone up by almost 33 per cent and you are going to review specific proposals for 2009-10. Why is there such a large increase in that budget?

Tom McCabe: There may be several reasons for that. One of the pressing ones is the demand from members. As members know, the Parliament can become very busy some evenings. If you want to go to a particular event, you sometimes have to seek it out because so much is going on. That reflects the fact that corporate Scotland, the third sector and members are excited about the Parliament and see it as an attractive place. People want to come to the Scottish Parliament and they see merit in holding events here, rather than somewhere else. However, that produces pressures. We are perhaps approaching capacity and we will have to think about the way in which events are scheduled in the future. Some thought has already been given to that. One of the biggest drivers of the increase is, in short, that the Parliament is a popular place and is becoming more so. We see that as a good thing rather than a bad thing, but it must be managed.

The Convener: I draw the session to a close. I thank our witnesses—Tom McCabe, Ian Leitch and Derek Croll—for their evidence.

We will have a short suspension to allow our next set of witnesses to arrive.

15:03

Meeting suspended.

15:06

On resuming—

Flood Risk Management (Scotland) Bill: Financial Memorandum

The Convener: Item 4 is evidence taking on the financial memorandum to the Flood Risk Management (Scotland) Bill. The committee agreed to carry out level 3 scrutiny of the memorandum, which means that as well as seeking written evidence, we will take oral evidence from affected organisations and the Scottish Government bill team.

I welcome to the committee: Jim Conlin, regulation manager at Scottish Water; David Faichney, flood warning unit manager at the Scottish Environment Protection Agency; Chris Spray, director of environmental science at SEPA; Jeff Green, head of roads at Angus Council; and Robert Hopewell, supervisory engineer at North Ayrshire Council. I invite questions from members. Jackie Baillie and Derek Brownlee have been designated to lead on the bill, but other members may intervene by catching my eye.

Jackie Baillie: Welcome to the committee, gentlemen. I will start with a general question to all the witnesses before moving on to one that relates specifically to local government. You will have seen the supplementary information that we received from the Minister for Environment in a letter dated 7 November. Are you happy that the margin of uncertainty that it sets out is broadly accurate? How will you build the implications of the significant degree of uncertainty that exists into your financial planning framework?

Jeff Green (Angus Council): The uncertainty to which you refer is the common and prevailing theme in all the submissions that we have read. That presents us with a difficulty, as certainty will not emerge until the preliminary round of flood risk assessments has been undertaken. In its written submission, Angus Council made a proposal for how to deal with the revenue implications of the bill in the financial settlement, given that the implications will not be known with certainty until we are some way through the process.

However, local government is especially concerned about the capital funding implications of interventions that may arise as a consequence of the bill and implementing the measures to which the bill will ultimately lead when it is enacted and how those will be addressed in subsequent block grant settlements. Paragraph 329 of the financial memorandum and paragraph 45 of the minister's response are of particular concern, as they seem to leave the issue open. Our concern is reflected in the written evidence submitted by Scottish Borders Council and one other authority, whose name has slipped my mind.

Chris Spray (Scottish Environment Protection Agency): We are happy with the position that the Scottish Government has set out in the latest information that it has provided. The key element will be the result of the flood risk planning preliminary studies. When we have the information from those, we will have a much better understanding of the way forward. The deadline for completion of the studies is the end of the comprehensive spending review, but we will learn as we go and will be in constant consultation with not just Government but local authorities, which will play a key role in determining what the result looks like.

Jim Conlin (Scottish Water): Scottish Water is happy that the approach taken in getting the range of costs has been sensible. We have included in our submission the assumptions that we made. The question is how those are built into future funding. The committee is aware that we are funded directly through customer charges. We are currently submitting the business plan for our next regulatory period, which covers 2010 to 2014. Usually, we are given capital expenditure funding for specific projects, but the fact that the initial assessment is still to be gone through means that we cannot put down funding against specific projects. We intend to submit our estimates on the basis that we will draw down funding based on the results of the flood risk assessments. That is the only way of doing it that we can think of without having further detail.

Robert Hopewell (North Ayrshire Council): North Ayrshire Council is obviously pleased with the minister's supplementary evidence, because it gives us a certain amount of confidence about the funding arrangements. However, I draw the committee's attention to paragraph 327 of the financial memorandum, which states:

> "The first set of flood risk management plans will be produced in 2015. These plans will identify the measures to be taken forward in the subsequent 6 year period".

We can see no detail on how funding will be allocated from 2011 up to 2015, and the financial memorandum is vague even on funding from 2015. I thought that the supplementary evidence might draw out a bit more detail on that, but it does not seem to do so.

Jeff Green mentioned capital funding. As yet, we have been unable to get any information on how local authorities are expected to fund capital schemes in the future, especially schemes in the order of £15 million or £18 million such as those that North Ayrshire Council has been looking to implement at the top end of the Garnock valley.

The need for those was brought to light by the flooding in Kilbirnie on 1 August this year, and we are being pressed by local members and the public to answer questions on the matter.

David Faichney (Scottish Environment Protection Agency): SEPA was particularly happy to see the two different scenarios that the Government has developed to show the level of uncertainty about the outcomes of the preliminary flood risk assessments and the range of activities that may be associated with those. Will we discover after the preliminary assessment that the flood risk in Scotland is pretty much what we think it is—the assessed risk from coastal and river flooding that is on our flood maps—or will further investigation demonstrate a greater risk from pluvial flooding, groundwater flooding or a combination of types of flooding in urban areas? The scenarios cover a range of outcomes, which gives us confidence that there is a bit of latitude depending on the result of the assessments.

Jackie Baillie: I will focus predominantly on questions on local government, but the rest of the witnesses should not think that they will get off the hook, because my colleague Derek Brownlee is worse than I am.

The witnesses rightly point out that there are different phases to the bill's implementation, the first of which falls within this spending review period. The Government estimates that preliminary flood risk assessments and other preparatory tasks will cost local government something like £1.92 million. The obvious first question is whether that estimate is sufficient. If it is not, what was wrong with the methodology that the Government used to arrive at that figure?

15:15

Jeff Green: It is difficult to state with any certainty whether it is sufficient, given the uncertainty that will exist until the preliminary assessments are conducted. I understand that the scenarios that have been mentioned were developed to try to cover a spectrum of possible outcomes. The minister himself makes the point that to some extent the costs will not be known until the process has been worked through.

One point that is unclear to me and possibly to people from other authorities is that although the financial memorandum and the other supporting documents talk about averages, it is inevitable that huge differences will exist between needs in different authorities' areas. I have detailed knowledge only of the position in my authority, which has seven burgh towns that are all vulnerable to flooding, be it coastal flooding along the Angus coast at Monifieth, Carnoustie, Arbroath and Montrose or flooding in the inland burgh towns of Kirriemuir, Brechin and Forfar. Their vulnerabilities differ and their needs differ.

A risk lies in reading "metropolitan" for "urban". I acknowledge that the major Scottish cities have their own needs, but the risk is that the large number of moderately sized towns throughout Scotland will suffer from having smaller-scale issues than the metropolitan centres.

In so far as those uncertainties exist, the cost estimates are probably robust. The question that remains is how the distribution of funding among the authorities will reflect their needs.

The Convener: I know exactly what you mean about Angus.

Chris Spray: We recognise that concern. In our written answer to question 4, we said that the second scenario, which we investigated in great detail, would allow us to look at more than just the metropolitan areas—that is the term that Jeff Green used—and at other urban areas. We identified a great list of such areas. I concur with Jeff Green's concerns.

Robert Hopewell: In our experience, one problem is achieving the reduction in risk that the public expect from the Parliament and local authorities. Traditionally, we have tried to reduce the risk to properties—primarily to buildings themselves—and worried later about gardens and suchlike, whereas the public have the high expectation that if there is any water round about their homes, that should be treated as flooding and local authorities should do something about it.

It is difficult to explain to people the high water table that we are experiencing, the amount of saturation in the ground and why water is lying where they have never seen it lying before. Having said that, it is probably lying only where it lay 20 or 30 years ago, although people have forgotten that.

In general, the public expect us to deal with water and to remove it safely away from them. It is difficult to quantify where we are going with that. One of the first tasks in producing flood risk management plans will probably be to determine exactly what we are expected to deal with.

Jackie Baillie: Several local authorities have reported to us that they feel that they have insufficient funds to implement the bill not just in the long term, but in the immediate phase. What discussions has local government had with the Scottish Government about the variations in the required funding, particularly for the immediate phase? Is that built into the local government settlement? Do you expect additional funding up to 2011?

Robert Hopewell: We expect additional funding. Our finance people do not think that the funding is built into the current local government settlement. I am a member of the Society of Chief Officers of Transportation in Scotland's sub-group on flooding. All of us expect additional funding from the Scottish Government to meet the costs.

Jeff Green: I endorse Mr Hopewell's comments. The grant-aided expenditure settlement does not address the bill's costs, which I understand are identified as being additional and are not currently met through the settlement.

Jackie Baillie: I will stick with expectations. Both authorities were right to mention capital expenditure, which is expected to increase and to be available, although you expressed some dubiety about who will ultimately be responsible for it. Where will the capital come from and when will it be available?

Jeff Green: The present scenario—the status quo under the legislation currently in force—is that support grants are available from central Government. Such grants are triggered if a flood prevention order—an FPO—is confirmed. A number of authorities have flood prevention schemes for which the capital works have gone beyond that stage, and that is reflected in those authorities' block settlements within the current settlement period, which goes up to 2011. However, some authorities, such as Moray Council and Angus Council, are developing schemes that do not yet benefit from having confirmation of a flood prevention order. It remains unclear how the costs of projects or schemes that secure consent within this settlement period will be met under the current legislation. It is even less clear, to me at least, how such cases will be dealt with after the implementation of the new act—in the new era, if you like. Local authorities are nervous that if the capital costs of possible future schemes have to be met from existing resources, it will put huge demands on them, especially the smaller ones. Those demands will have to be met alongside authorities' other financial commitments.

Jackie Baillie: You are going through a strategic planning exercise, so would it be fair to say that you are identifying new risks? You expect not only a capital budget but an increasing capital budget, because of those new risks.

Jeff Green: We are moving from an era of reaction to flooding issues to an era of proaction. In addition, our wider remit covers not only non-agricultural land, as before, but all land, and it covers fluvial flooding, pluvial flooding, coastal inundation and climate change. Given that a proactive approach will be taken to all those issues, it is almost inevitable that measures will be identified, through the flood risk management process, that have not been identified before. A high proportion of those measures, unidentified as yet, will be capital intensive.

Robert Hopewell: I totally agree with Mr Green. Many proactive local authorities have put forward not only large capital flood prevention schemes but other schemes for which a need was seen perhaps three, four, five or even 10 years down the line. Such information, together with estimates, has been given to Scottish Government officials. The Garnock valley scheme, one of the latter types of scheme, seems to have become a bit lost. We hope to make progress with it next year, starting work on planning, but until the new legislation comes in there will be a hiatus before we know exactly how far we can go with it.

I will pick up on issues that Mr Green raised. When we consider what happened in the floods in England and in the flood in Kilbirnie earlier this year, we may find that, in the monsoon-type conditions that we have experienced, some areas are at a high risk of flooding in a way that we were not previously aware of. At the moment, some areas are known to be at high risk of flooding, but the wrong type of rainfall pattern may cause serious flooding in other areas too. The Castlepark area in Irvine has always suffered from localised flooding but, because we do not have the mapping that will be done under the first set of plans, we do not yet know whether a concentrated storm might put the area at higher risk than some of the areas where we are targeting money at the moment. That is a worry.

David Faichney: The European floods directive, the requirements of which are transposed into the new bill, will change the way in which we consider flood risk in Scotland. Not only will we consider where the water goes and what level it goes to, but we will map the depth, velocity and flow paths of the water. We will also consider the impact of flooding on cultural heritage, human health, the environment and economic activity. Those aspects will add to the cost of putting together flood risk management plans. The elements in them that must be reported on are much more extensive than we have a handle on at present.

The Convener: Local authorities have been around for a long time. How big is the knowledge gap or, to put it the other way round, how complete is our knowledge? What are the knowns and unknowns with regard to the projects that must be completed? Are local authorities up to date with what they must do?

Robert Hopewell: Probably one of the better examples in that regard comes from when the Flood Prevention and Land Drainage (Scotland) Act 1997 came into being. We did our first report, for which we engaged a consultant. We got information from local officers and other people that we did not have a problem on Arran, so we concentrated on reporting on the mainland. That was fine until a year later, when there was a deluge in Arran and many areas were flooded. When we spoke to people on the ground, they told us that the area had a history of flooding going back 100 years. We asked why we did not know about that and the answer was that people on the island dealt with the problem themselves.

That is not the case any more. Over the past four of five years, people have become aware of climate change and flooding legislation and know that the council has a responsibility and that we should promote flood prevention schemes. That is why we have done a lot of work on Arran and carried out quite a bit of research there as well.

Chris Spray: To back that up, I think that it is clear that we live in what is a rapidly changing scenario. Our data on river flows and climate change variables show that our rivers' winter maximum flow is between 60 and 80 per cent higher than it was in the 1960s. Year on year, there are massive increases in the number of severe weather warnings and severe flood warnings that SEPA puts out. Traditionally, we have had a good handle on river and valley flooding, and latterly and increasingly we have a good handle on coastal flooding, but we are now looking at the more complex issues that are hitting our urban areas. I accept that it is not just in the big metropolitan areas that that is happening. Urban areas are being further hit by the fact that one of the changes involves an increase in short-duration, high-intensity rainfall events, which easily and quickly make a real impact on such areas.

Jeff Green: The local authority environment was different prior to 1996. In those days, regional councils' expertise in water engineering, if I can call it that, was vested mainly in people who dealt with water as distinct from engineering staff who dealt with other infrastructure items. Following local government reorganisation, water services became something else, which evolved into Scottish Water. To generalise, which it is always dangerous to do, the expertise in the water services field moved away to be with what is now Scottish Water. In the interim, local authorities have re-established some expertise through need, but the resource implications of the Flood Risk Management (Scotland) Bill are significant not only in financial terms but in terms of having a distribution of staff with the necessary expertise, skills and background. In its written evidence, SEPA makes the point that there is an issue in Scotland around sourcing staff in the relevant organisations, many of which are represented at this meeting, to address the challenges that the bill will present us with.

The Convener: It strikes me that there is an immediate short-term problem. If we battle with nature, it tends to win. Floods must be dealt with immediately, but the solutions are not short term but long term. I suspect that the issue is capital expenditure. Where are people with that battle? How much more is there to do?

Jeff Green: We have a number of schemes. I have written information on that with me that might help the committee in due course. For the schemes in Angus that we have in mind, we attempted to quantify the implications of the new bill's proposals in revenue cost terms. That information might assist the committee. I could leave it with the clerk, if that is in order, convener.

The Convener: That would indeed be helpful.

15:30

Jim Conlin: Scottish Water believes that this will be an on-going area of investment. As Chris Spray has pointed out, things are changing rapidly. Although we do our best to design systems that work in future, we are always going to find that things change and move on.

We are also moving away from putting everything underground, because such an approach requires bigger pipes, bigger pumping stations and bigger tanks. Our new approach, which centres on flood routing and flow across the land and through towns, will involve looking at new areas of planning and, for example, thinking about the layout of our towns and cities. Such plans will have to change as time moves on, and those changes will in turn require us to change how we deal with surface water, how we approach flood risk management plans and so on. This area will continue to develop; we will never reach a point at which we can say, "We've dealt with flooding," and simply put the issue to one side.

Some sewerage systems are hundreds of years old and will have to be augmented and improved. That will take a long time because, as a number of submissions have pointed out, they cannot all be dealt with in one six-year period. In fact, all that can be done in the initial period is to identify the priority work that will have to be carried out in the next period, when the priority work that needs to be done in the subsequent period has to be identified and so on.

The Convener: That is what I meant by nature fighting back just when you think that you have won.

David Faichney: The bill as drafted provides a framework that will allow us to plan 30 to 50 years ahead. Under European requirements, we report on a six-year cycle, which means that every six years we have to put together a national flood risk plan, which indicate our priorities for Scotland, and local flood risk management plans, which allow those priorities to be implemented at a local level. Because we are not sure what our priorities will be in 20 years' time, we have to keep working along that path and consider the longer term instead of looking for the quick fix.

Jeremy Purvis: What proportion of local authority flood prevention schemes have been funded and have reached such a state of readiness that the flood prevention order that Mr Green referred to can be made?

Robert Hopewell: Scottish Government officials will have that information; I can speak only about what is happening in North Ayrshire. We have constructed coastal flood prevention schemes at Largs and Saltcoats and are intending to take forward the upper Garnock valley scheme, which will serve Kilbirnie, Glengarnock and Dalry. We hope that, after that, we will be able to take forward the scheme at Kilwinning in two phases.

In Irvine, the area that is prone to flooding is already protected by a flood prevention scheme, but it was constructed 15 years ago outwith the terms of the Flood Prevention and Land Drainage (Scotland) Act 1997. Given the effects of climate change, the scheme now obviously offers a lot less protection than it did when it was built, and we are looking to upgrade it.

We are also considering some minor coastal flooding schemes on the mainland. This year, our intention has been to complete our coastal studies in preparation for schemes and to carry out a full coastal study of Arran, which I think would identify a number of areas at reasonably high risk of coastal flooding.

Jeremy Purvis: It is probably more appropriate to address this question to ministers, but the written evidence that we have received makes it abundantly clear that councils do not have the capital resources to deliver the schemes that they have already proposed. In that context, many of my constituents might well be filled with dread at the prospect of SEPA taking on 40 additional staff at a cost of £9.5 million, just to tell them something that they already know. That is an extraordinary number of additional staff, particularly given that it is for the conservative scenario where the result of the assessment tells people that the existing situation is "already well understood". Surely the money would be better spent by SEPA developing some of the defences that councils desperately want to deliver at present.

Chris Spray: I will make a general comment on that—

Jeremy Purvis: It is not personal, Mr Spray.

Chris Spray: That is perfectly all right. I take the point. It is about spending money to prioritise where best to spend money in future. Some individual schemes dwarf those numbers. For example, the Elgin scheme that was mentioned in one of the submissions is running at something near £100 million—for one flood defence scheme. We are talking long term and trying to build, bit by bit, a process by which to get our best information to where it will be most useful in terms of investing significant amounts of money. I do not disagree with you on that.

We have worked closely with the Scottish Government to detail the numbers and the range of skills and we can let you have that information. We have given it to the Government and its officials have pored over it, as have its consultants.

The Convener: There are plenty of demands on SEPA's revenue and capital. How easy—or difficult—is it for you to prioritise?

David Faichney: It is difficult to understand the flood risk across Scotland and to get a picture of where our national priorities will be. We need to understand what the current and future flood risk is likely to be in order to prioritise things. First, we need good scientific and mapped data. The European directive requirements in the bill tell us that we have to produce detailed maps to show the risk in areas where we think we have a significant flood risk. Having done that, we then have to think about how to deal with the risk. It is a bit like building a house: before you start to build, you have to ensure that the plans and permissions are in place and that the architects have had a right good look at things. We have to ensure that our priorities are in place and that we understand current and future risks.

Jeremy Purvis: In the minister's supplementary evidence, the number of additional staff is projected at between 40 and 55. Will they be permanent SEPA staff?

Chris Spray: Yes.

Jeremy Purvis: How does the £9.5 million staffing costs for the 40 additional staff or the £14.18 million for the 55 additional staff relate to the on-going costs that are set out in the financial memorandum? The costs on SEPA are shown as reducing dramatically to £3.34 million.

David Faichney: We took a look at what SEPA's tasks would be. I refer not only to the project tasks of delivering a flood risk management plan, but our on-going tasks. The flood risk management plans need to be reviewed every six years and cycled again. Local authorities have to put together flood risk management plans for areas where there are significant flood risks. SEPA has to oversee that process to ensure that it is happening and that authorities have all the tools, equipment and data to give a sound basis for their flood risk management decisions.

There is an on-going process in which about 10 staff across Scotland will be involved to enable the flood risk management planning groups and advisory groups to come together, meet, produce and review plans under the six-year cycle. In addition, around 10 staff will be involved in the better understanding of flood risk. They will focus on flood risk in areas and ensure that we better understand the different flood risks that result from groundwater, coastal, pluvial and fluvial flooding, and then ensure that the plans are best understood. Those 10 staff may not be in place ad infinitum, but they will be needed for a number of years until we have a good grip of the flood risk in Scotland.

The other staff are associated with flood risk management planning. We need to understand the relative merits of all the different measures that are considered in the flood risk management plans. We need to balance whether a flood defence scheme should go forward as against a flood warning scheme, a managed retreat, a decision not to build on an area, or the use of natural flood management techniques. We have to balance all those measures and be robust in our understanding of them. We have not put forward a great many staff for that work, but the number includes one or two hydroecologists who understand the benefits of natural flood management.

The bill is very clear that we have to implement sustainable approaches to flood management in Scotland; it is not all about building defences. How do we have the argument about whether to build a defence or to have natural flood management if we do not have the science and understanding of catchments? It is about building up understanding of the hydrogeomorphology of coastal and river areas, and of understanding the impacts of different natural flood management techniques on the ecology and water environment, as well as on flood risk.

The bill brings SEPA another set of duties. The Reservoirs Act 1975 will come to SEPA in a few years, and it will take a few staff to look after reservoir safety in Scotland. We need to run a register and have an engineer, as well as understand what makes a good flood management plan for our reservoirs, so that all reservoir operators can put it in place. SEPA will also have a new statutory duty for flood warning. We have one member of staff down for that, and they can do an assessment of the need for flood warning across Scotland and how we can prioritise flood warning.

A number of people with specialties will be required here and there and the local authorities will not each be able to have them; they will look to a national organisation to support them.

The Convener: How many of the people that you have mentioned are experienced flood practitioners? I believe that they are a scarce commodity. Does that mean that they will command higher salaries?

Chris Spray: I am not sure about commanding higher salaries, but they are a scarce commodity, as you rightly point out. We highlighted in our earlier evidence that we need to work with—and we are already talking to—the universities at Stirling and Dundee to get an innovative programme for training hydrologists. A lot of them are hydrological mappers, if you like, and they need a basic understanding of hydrology on to which can be put mapping, management, and geographical information systems skills. It is a challenge and we are already talking to the Scottish Government and the universities about how we can meet it.

The challenge is also faced throughout the United Kingdom. In a recent answer to Parliament, the Environment Agency reported that it had 200 vacant flood management posts across the UK.

Jeremy Purvis: I have one final point. Scottish Borders Council's submission is clear that there is a much greater expectation that it will deliver more flood prevention measures, and it is concerned that there is no clarity with regard to future funding to deliver the schemes that it already wants to deliver. We will have 40-odd well qualified people telling someone that their property is about to flood, that their property is flooding, and then why their property flooded in the first place, but no work will have been done on prevention. I suspect that SEPA will not say that that is not the best use of resources.

The committee has been asked to look at the scenario in which flood risk management

"could rely more heavily on local flood risk management plans, which would be driven by current local understanding of flooding problems",

but that is a bureaucrats' charter under which work is not being done.

The Convener: Who would like to deal with that?

Robert Hopewell: That highlights the difference between the flood risk management plans that are at SEPA's level for identifying the areas that are at risk of flooding, and the local flood risk management plans that will mainly lie with the local authorities or groups of local authorities, to identify areas that are at a higher risk and implement measures to reduce that risk. I was going to say "eliminate that risk", but we do not eliminate flood risk.

Jeff Green: The onus has to be on understanding the problem. We cannot promulgate efficient and cost-effective solutions unless we properly understand the problem. To that extent, I agree with SEPA about the creation of local flood management plans being subsequent to the creation of flood management plans.

Delivering solutions, whatever they might be, also has to be adequately resourced. The funding of solutions is a capital issue, which comes back to my opening remarks about the adequacy of that provision. You cannot have one without the other. Whether the balance is right is difficult to say without clarity on the capital provision to deliver interventions.

15:45

Chris Spray: I agree with Jeff Green. The key thing is to understand flood risks and the effectiveness of the necessary measures. The issue of delivery is one for local authorities, which must weigh up their own priorities.

David Whitton: Earlier, you mentioned staffing issues. Given that there is a shortage of flood practitioners, might we end up with a situation in which local authorities and SEPA are competing for the same graduates?

Mr Hopewell told us that the good people of Arran were able to say, "We could have told you there was going to be a flood, because it happens all the time." Surely it is better to focus on recruiting locally rather than centrally.

David Faichney: Not all the new staff will be flood practitioners. They will be involved with managing flood risk, but some of them will be catchment flood management planning people, whose job is to engage with local authorities, set up meetings and allow things to happen. Those people are not flood engineers.

David Whitton: That is exactly my point. They are there to set up meetings about flood risk. However, if the local authorities employ flood practitioners who have local knowledge that has been gained from time on the ground and discussions with experienced people such as Mr Hopewell, surely it will be possible to develop local flood plans more quickly and efficiently. I would be interested to hear what the representative local authorities feel about everything being centralised in SEPA.

Robert Hopewell: We have discussed that issue. We are quite happy for SEPA to carry out a function at a level that is appropriate for it. In our submission to the consultation on the bill, we expressed reservations about SEPA being named as the single competent authority and said that local authorities should also be named as competent authorities—the directive does not require there to be only one. To my mind, that issue has been resolved, and we are now happy with the way in which the matter has been set out. SEPA will do work at a certain level, using whatever resources are required, and then local authorities will step in with their local flood risk management plans and expertise.

You make a good point about everyone fighting for the same scarce resources. You were talking about flood practitioners, but the same thing applies to civil engineers, as there is a shortage of qualified engineering staff. The situation has improved a little because of the recession, which has brought about a downturn in business and caused one or two consultants to shed staff. However, with the Olympics, the Commonwealth games and all the other on-going construction projects, local authorities have found it difficult to engage properly trained and qualified civil engineers.

Jeff Green: There is certainly a role for a national—although that word is not in the legislation—flood risk management plan, which is SEPA's role, and there is also a role for local flood risk management plans, which would fall within the local authorities' domain. The devil is in the detail, however, and none of us is clear about how much detail SEPA's flood risk management plan will go into at a local level, and how much work will need to be done at that level by the local authorities. We have expressed concerns about the fact that, if the national plan is too detailed, it will be too prescriptive to allow local solutions to be developed. On the other hand, if the national plan is too broad, it will not give much guidance in relation to the production of the local management plans. A lot of work needs to be done to get the right balance between what is done at the national level and what is done at the local level.

On the issue of local knowledge, the production of flood risk management plans at both levels will require the gathering of intelligence. Inevitably, that will include intelligence that is extremely local and, to some degree, anecdotal.

The Convener: Mr Spray, I noticed that you were shaking your head at one point.

Chris Spray: I will let my colleague talk about that point. Before I do, however, I would like to respond to Mr Whitton's point about us and the local authorities chasing the same resource. He is absolutely right. We have had discussions with COSLA—and both we and COSLA have had discussions with the Scottish Government—about where best to site that resource. If it is best that SEPA holds a central hydrological resource, so be it, although that would not be my wish. We realise that there is nothing to be gained by everyone chasing a limited resource of hydrological specialists. The point about local expertise is also important.

David Faichney: On the relationship between the national plan and the local plans, SEPA will have a role as a national co-ordinator and facilitator. It needs to produce a plan that shows the national policy framework and gives an overview of flood risk management priorities. However, SEPA will not do that on its own; it will agree on priorities in collaboration with local authorities and the Government. The national plan, which will be sent to the European Commission, will be made up of all of the elements that are in the local plans.

The Convener: Is that really a recipe for co-ordination? SEPA, Scottish Water and local authorities all face the same problem but they are all operating in different ways. Is the situation co-ordination or competition? How can you organise the situation better?

Chris Spray: There must be co-ordination and partnership working, not competition. As we have worked on the bill with the Scottish Government, that has become more and more apparent. The flooding bill advisory group, in particular, has been a good forum for that debate.

Jim Conlin: The bill sets out a framework and, as everyone has said, is aimed at ensuring that there is partnership working and co-operation. If we are not going down the route of having one organisation that deals with flooding, we will have to find a way of working together efficiently and effectively to deliver the outcomes.

Previously, we have suggested that we might end up with bodies that are akin to drainage boards, such as the metropolitan Glasgow strategic drainage partnership, on which we work with local authorities and SEPA. Such boards could also deal with the need to share expertise between authorities, as staff could be seconded to the board. That is an example of the sort of framework that will have to be set up in order to deliver the national priorities. Although it might introduce an element of uncertainty, that is the only way in which the plans can be effectively delivered.

James Kelly: Last week, in Ayr, we heard some interesting points about infrastructure and the economy. Witnesses spoke about the importance of implementing flood risk management plans so that floods do not adversely affect the local economy. Concerns were raised about the fact that projects need to be commenced far in advance of when they might be needed because of the significant time between identifying projects and flood prevention measures being in place. What are the cost implications of such lengthy lead times?

Jeff Green: Flooding works have a significant gestation period: the time between identifying need and there being tangible works on the ground can be significant. The fact that flood prevention orders will grant deemed planning consent will avoid a two-system approach for promoting schemes. At present, schemes require flood prevention orders and all that is associated with them. They also require planning consent, which replicates some of the flood prevention order process. The granting of an order and the gaining of planning consent tend to be sequential, which accounts for some of the gestation period. I hope that through better co-ordination and co-operation, and by bringing together those processes under the new flood prevention order requirements, delivery might be accelerated. Time will tell.

Robert Hopewell: Local flood risk management plans must start at the same time as flood risk management plans, although local flood risk management plans will not be driven by flood risk management plans until a couple of years down the line. However, I do not see any reason why local flood risk management plans cannot start based on available knowledge. SEPA will produce the Scotland-wide, all-encompassing plans, but many local authorities have similar knowledge to SEPA. Most of our studies and assessments have been made available to SEPA for incorporation into the next round of flood risk maps. Both plans must proceed at the same time.

David Faichney: There will not be duplication. Knowledge of flood risk lies with local authorities. They know the history of local flooding and have done mapping and modelling work. That applies especially in the Glasgow area and in some other metropolitan areas. It is a matter of gathering that information and ensuring that we are not duplicating effort and doing something that has already been done. The floods directive is clear that the preliminary flood risk assessment process should be carried out using readily available or easily derivable information.

Joe FitzPatrick (Dundee West) (SNP): The panel will be aware that the financial settlement is very tight. If there is to be a shift in funding, cuts will be required in some areas to fund other areas. Does anyone believe that there is scope for a major reduction in spend on flood prevention in order to fund tax cuts?

Jeff Green: I think that the panel's answer is no.

The Convener: That was a short, sharp answer. Derek Brownlee has the final questions.

Derek Brownlee (South of Scotland) (Con): I will start by returning to the allocation of responsibilities between SEPA, Scottish Water and local authorities. There is an element of flexibility under the floods directive, and the bill adopts a direction of travel that is not necessarily the only one on the table. Speaking for your respective organisations, are you aware of alternative scenarios being costed? For example, have the cost implications of a major shift of responsibility from SEPA to local authorities been considered, either by local authorities or by SEPA? Has such a change been thought through, to your knowledge?

Chris Spray: I am not aware of that. A very effective flooding bill advisory group has been dealing with matters. I think that the Government has employed an independent consultant to study what we have done. The Government might be in a better position to comment on whether any completely different models have been assessed in detail.

Derek Brownlee: The question might be more appropriately directed to ministers, but it is important, given the concern about the cost of the bill and assessing whether the proposals are the most cost-effective way to implement the responsibilities.

On an allied issue, can any of the panel point to provisions in the bill that will give rise to costs that are beyond the scope of the European directive—the usual gold-plating criticism that is levied when directives are transposed—or are the bulk or even all of the costs directly attributable to the directive obligations that will be transposed?

16:00

David Faichney: We have been directed by the Scottish Government to present to it the costs that are directly attributable to the bill. In our first pass over the legislation, back in the early summer and before we took our estimate to the Government, we were thinking about information and gaps in skill bases. We thought that SEPA would have to develop a skills base and monitoring network to understand flooding better in the areas where we do not have monitoring stations. However, those costs have been stripped out, because they are not directly attributable to the bill. We are being carefully guided by the Government, and the financial memorandum is based on our costs that are directly attributable to the bill.

Derek Brownlee: So whether we assume that the lower or higher range of cost estimates in the financial memorandum—or anything in between—is accurate, your view is that the costs are directly attributable to the implementation of the directive and do not include additional costs that the Scottish Government is adding during transposition.

Chris Spray: The only rider to that is the reservoir costs, because the opportunity is being taken in the bill to integrate, upgrade and update them. That is not a specific aspect of the European directive, although it plays well into it because, as we saw recently with some reservoirs that were in danger of overtopping, there is an element of flood risk. However, that is the only addition.

Derek Brownlee: That does not sound like a particularly significant part of the costs. Is it possible to quantify it?

Chris Spray: We estimate the cost as five staff, based on what we have learned from the Environment Agency—it has taken the reservoir audit role from local authorities south of the border—our recent experience with the reservoir in Renfrewshire and where the gaps are. We estimated the cost specifically for ourselves; the Government has figures for others.

Jim Conlin: We highlighted in our submission that we assessed and put forward other costs—related to the pit review and requirements to upgrade systems—in our business plan, but they are not directly related to the flooding legislation.

The operating costs for Scottish Water and local authorities when we move to more sustainable forms of drainage and flood management are not yet fully understood. We will be operating systems that we have not operated before, so the operating costs will be different. Whether the costs go up or down is not the issue—in the first instance, it is a question of assessing the difference.

Jeff Green: The financial memorandum estimates average costs of £5,000 per authority, which, given the number of authorities, leads us to the figure of £150,000 or thereabouts for enforcing the Reservoirs Act 1975. That is a realistic estimate of the enforcement duties that currently are imposed on local authorities that will transfer across to SEPA. The costs identified in the memorandum are relatively modest; the actual sums will depend on the number of reservoirs that local authorities have in their area.

Robert Hopewell: Two areas are not properly addressed in the financial memorandum: coastal flooding and the surface water sewer network. The memorandum covers the cost of work that may have to be done to install new systems to reduce flood risk, but there is already an extensive and often unrecorded surface water sewer network, especially in towns and other urban areas, while coastal defences throughout the country were built in Victorian times and are often in poor condition. Councils incur substantial capital costs in maintaining even adequate flood defences, and most councils cannot consider renewing their coastal defences. Those two areas have perhaps been overlooked.

The Convener: The Victorians taught us a great lesson about looking to the future, which we seem to have forgotten.

Derek Brownlee: It is not inconceivable that SEPA and Scottish Water will be given statutory duties but no funding to fulfil them. If central Government does not meet the costs in full—whatever they are—what action will your organisations take to balance the books?

Chris Spray: In relation to the current spending round, we have to deliver on our duties by December 2011. We are content that we can do that within our current allocation, although we will have to consider our priorities and look to find as many efficiencies as possible in relation to our existing duties under the water framework directive, which are similar both in timing and in stakeholder engagement, such as our work with councils on river basin planning. We will look to gain more efficiencies from that.

Given that we lead on the matter and have to provide data to our colleagues at Scottish Water, the critical thing for us is that we are assured that we can do the work within our own resources, working with the Scottish Government to prioritise what we deliver.

In the future, we will look to debates on comprehensive spending reviews, as we normally do.

Jim Conlin: In constructing Scottish Water's costs in relation to the bill, we assumed that we will be funded by the normal route—in other words, we will reclaim the money through customer charges—and we will put that in our draft business plan. The way in which we spend customers' money is set for us by the minister and our regulators, so we expect to receive targets and ministerial direction. If there is a statutory requirement on Scottish Water to do something, we can recover the cost through our charges. Those charges are set by the Water Industry Commission for Scotland, which is also involved in the process.

That approach is based on the assumption that the best way to raise money is through customer charges, but the Government will have to keep that under review. At present, Scottish Water often contributes part of the cost of local authority capital schemes, but it might be better and more efficient for the local authority to fund the entire scheme rather than for Scottish Water to raise its part of the capital allowance through customer charges. We expect that that will continue to be discussed.

Derek Brownlee: My final question is for all the witnesses. We heard about the range of possible costs. The bill requires ministers to report annually on the implementation of the directive. Is there any reason why your organisations—I ask the local authority representatives to speak for local authorities in general, if they can—could not report annually on the costs that your organisations bear as a result of the legislation?

Jeff Green: There is no reason why we could not do that. Indeed, our written evidence proposes that that avenue could be taken in auditing the demonstrable costs that arise as a consequence of the bill. We would need to make provision at the beginning of the financial year so that our data recording reflected that, but that could be done.

Chris Spray: I do not foresee any problems with that. We will try to make as many efficiencies as possible by melding things into our existing systems, but there is no reason why we could not do what you suggest.

The Convener: As we have reached the end of our questions, I thank all our witnesses—Jeff Green, Robert Hopewell, Jim Conlin, Chris Spray and David Faichney—for their controlled flow of information and their reservoir of experience. We all look forward to future developments.

16:10

Meeting continued in private until 17:23.

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