

# **FINANCE COMMITTEE**

Tuesday 25 November 2008

Session 3

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## FINANCE COMMITTEE 28<sup>th</sup> 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 GAVE EVIDENCE:

Bob Irvine (Scottish Government Climate Change and Water Industry Directorate)

Judith Tracey (Scottish Government Environmental Quality Directorate)

### CLERK TO THE COMMITTEE

Susan Duffy

### SENIOR ASSISTANT CLERK

Mark Brough

### ASSISTANT CLERK

Allan Campbell

### LOCATION

Committee Room 1



## Scottish Parliament Finance Committee

*Tuesday 25 November 2008*

[THE CONVENER *opened the meeting at 14:05*]

### Decisions on Taking Business in Private

**The Convener (Andrew Welsh):** Good afternoon and welcome to the 28<sup>th</sup> meeting in 2008 of the Finance Committee. Agenda item 1 is to decide whether to take some items in private. First, I propose that we take our draft report on the 2009-10 budget process in private at this and future meetings. Are members agreed?

**Members indicated agreement.**

**The Convener:** Secondly, does the committee agree to consider a draft report on the Flood Risk Management (Scotland) Bill in private at a future meeting?

**Members indicated agreement.**

**The Convener:** Thirdly, it is suggested that we consider a proposed contingent liability in private at our meeting next week. A contingent liability is essentially a liability that is not certain but contingent on some event. The most obvious example is guarantees and indemnities. It is proposed that the item be taken in private because negotiations are on-going, and discussing commercially sensitive information in the public domain could prejudice negotiating positions. Do members agree to take the item in private?

**Members indicated agreement.**

## Flood Risk Management (Scotland) Bill: Financial Memorandum

14:07

**The Convener:** Item 2 is further consideration of the financial memorandum to the Flood Risk Management (Scotland) Bill. We are joined by officials from the Scottish Government. I welcome to the committee Bob Irvine, head of the water, air, soils and flooding division and the water industry division; David Reid, head of the finance programme management division; and Judith Tracey, head of the flooding policy team.

I invite questions from members. Jackie Baillie and Derek Brownlee have been designated to lead on the bill, but any other member who wishes to ask questions is welcome to do so and should try to catch my eye. I ask Jackie Baillie—

**Jackie Baillie (Dumbarton) (Lab):** You are getting ahead of yourself. Derek Brownlee was going to go first.

**Derek Brownlee (South of Scotland) (Con):** I was happy to cede to Jackie Baillie.

Last week, we heard from the various organisations that we had before us last week about the range of potential costs of the bill. We all understand why there is a range of costs, but the Scottish Environment Protection Agency and Scottish Water, for example, seem to take views on the likely cost that are at opposite ends of the range. What degree of certainty do you have about where within that range the likely pattern of costs will emerge?

**Bob Irvine (Scottish Government Climate Change and Water Industry Directorate):** It is always risky to sit in this seat and say, "It all depends." I hope that our memorandum and supplementary evidence explain why there is a range of costs. I hope that those factors will begin to be understood in the first stage of the implementation of the bill, which is a pretty detailed examination of the real nature of flood risk in Scotland. We will be able to get a better assessment of the continuing costs from that.

The slight difference in view is perhaps due to the fact that Scottish Water has a more discrete view of its responsibilities than SEPA does. Scottish Water already runs the sewerage system and, although it has quite a lot to do to refine its understanding and build a much better database, it has a set of competences and understandings. SEPA, by and large, faces a significant new set of responsibilities, although the bill builds on and develops some of its existing responsibilities. I suppose that that is quite a significant challenge,

so prudence and precaution tell it to look to the higher end of the figures.

Perhaps Judith Tracey would like to add something about how the organisations have approached the dialogue that we have had with them.

**Judith Tracey (Scottish Government Environmental Quality Directorate):** I am not sure that there is much more that I can add. We had extensive discussions with all the organisations. We held meetings with them and held workshops with SEPA to try to work through their responsibilities and ensure that they were all clear on their roles under the bill so that they could come up with clear cost estimates. The figures that are in the financial memorandum and the supplementary information are based on that work.

**Derek Brownlee:** It is not necessarily a problem to present us with a range of figures. We realise that, when there are uncertainties, it is only prudent to indicate them. However, let us take an analogy—admittedly quite a laboured one—with what the Bank of England does on inflation. It not only produces forecasts of what the upper and lower ends of the rate of inflation might be but identifies where it expects the rate to be within a degree of probability. Given the work that you have done, is it not feasible to give us the upper and lower cost estimates and tell us what you think the cost is most likely to be? Is it simply not possible for you to do that?

**Bob Irvine:** It is possible. Our best guess is that the cost will probably be in the middle range, possibly tending towards the upper range, although I cannot say whether that assessment has a 75 per cent probability. Certainly, there are significant challenges for all the organisations. The challenge for them will be to ensure that we implement the bill in the most economic and efficient way. However, given the level of the challenge and the timetable that will be imposed on the organisations, the cost will probably be at the upper end of the range rather than way down at the bottom. As I said in my first answer, there is an it-all-depends element to the figures.

**Derek Brownlee:** Another element of uncertainty that has been raised in a number of submissions and which we discussed last week is whether it will be possible for you to get the numbers of competent staff that will be needed to undertake the work that the bill will require. That is a pretty fundamental issue, not only with the finances but with the underlying policy—I will not stray into policy. Are you absolutely confident that the staffing that is likely to be required to achieve what the bill sets out is not only attainable but attainable at the level of indicative costs that has been given?

**Bob Irvine:** We are confident about the level of indicative costs. There are a number of things that we and other organisations must begin to do now on recruitment. Last week, SEPA described to the committee a couple of discussions that it is having with higher education institutions. If we do that type of thing now, the resource will be available. The figures show that a wide variety of skills is required. A lot of attention is paid to the issue of hydrographers, who are a scarce resource across the United Kingdom. However, other complementary skills and experiences exist. Steps and actions can begin to be taken now to ensure that people are in place to deliver the bill's requirements as and when it becomes law.

14:15

**Derek Brownlee:** In formulating the bill, what consideration did you give to the issue of competition with other jurisdictions for staff, particularly specialist staff? That is only partly within your control, but surely it will be a significant factor in whether you achieve the bill's objectives.

**Bob Irvine:** I am not sure that we would think in terms of competition with other jurisdictions. The reality is that there is an employment market in the UK and across Europe for the skills in question. As I have said before, SEPA and local authorities must engage properly in that market. The Government can support them in that, and we can enter into a dialogue with the Scottish Further and Higher Education Funding Council and higher education institutions to ensure that employment needs are properly registered as we go forward.

**Judith Tracey:** When we were developing the policy, we paid close attention to existing skill sets in organisations and tried to ensure that the responsibilities that we placed on them were based on the skills that they had. SEPA already has a lot of experience in flood risk mapping, for example, which ties in with its high-level role of pulling together that sort of information. The need to work with existing skills in the organisations concerned was one reason why we went along the lines that we did in developing the policy.

**Derek Brownlee:** Given that there is a range of potential costs, if the bill is passed and you move into the implementation stage, what actions will you take to monitor total costs and the balance of costs between the organisations on which they will ultimately fall?

**Bob Irvine:** A set of implementation and advisory groups has been set up to support the development of the policy and the underlying understanding. That will be the primary route through which we shall assess how progress is being made and whether there are continuing resource or skill shortages that are proving difficult

for one or all of the organisations; it will also be the basis of reporting to ministers. The bill proposes a more formal cycle of reports to Parliament, and any issues that materialise will be highlighted in those reports. It is recognised that there will be significant engagement between all the parties and the Government throughout the bill's implementation.

**Derek Brownlee:** On the reporting to Parliament, I think that SEPA, Scottish Water and the local authority representative—although it must be said that he did not speak on behalf of all local authorities—indicated at last week's meeting that it was feasible to report on the costs that would be incurred because of the responsibilities. If I read your statement correctly, your view is that that would be feasible.

**Bob Irvine:** Absolutely, yes.

**Jackie Baillie:** I will ask a couple of general questions and then focus on issues that the local authorities raised with us. I have gone through this process myself with another bill, so I know that the financial memorandum should, of course, be the best estimate of the total cost of the bill's implementation. Notwithstanding what you said, it would be useful to know why those costs are not in the financial memorandum. The financial resolution on the bill will give effect to the financial memorandum, which contains figures that you acknowledge are not accurate, because you sought further estimates.

**Bob Irvine:** We hope that the figures were as accurate as they could be when they were presented. The purpose of the supplementary evidence was to register the further work that had gone on in the interim to refine the policy and develop the detailed provisions in the bill, which allowed us to identify and quantify some of the uncertainties. Those are the best estimates that we have.

I am not sure whether you are also talking about the cost of implementing schemes, which is a consideration for local authorities.

**Jackie Baillie:** I will come to that, but I was asking specifically about the bill process and the requirements on financial memoranda that are set out in the Parliament's standing orders. I am curious about why the cost exercise that you undertook, which was valuable in producing new estimates, was not undertaken before you submitted the financial memorandum.

**Judith Tracey:** We went through the exercise before we submitted the financial memorandum. However, after we had submitted the financial memorandum, we were in a position to start considering in more detail areas that had been in development right up until the bill was introduced. I am thinking in particular about work on how we

would carry out preliminary flood risk assessments, policy on which was developing right up until the bill's introduction. There was a cut-off point in our discussions with local authorities, SEPA and others, so we thought that it would be helpful to return to the issue when we were in a position to refine the cost estimates.

The cost estimates that are in the supplementary information have not changed since the financial memorandum was published; we have just provided additional information.

**Jackie Baillie:** I think that everyone acknowledges that it might have been helpful to have provided the information earlier—I suppose that I am making a point about the process.

As you said, the bill is all about the preparation of plans and the assessment of flood risk. That is all very welcome, but you are creating an expectation that capital to deal with the risks that are identified will somehow be available—and available in increased quantities. Is that a reasonable expectation?

**Bob Irvine:** To an extent. It is for ministers to decide how to allocate resources. It is perhaps naive to say that we expect that, if the process identifies a significantly greater quantum of flood risk than has been identified so far, a fair question about resources must be put to ministers and the Parliament. A view will be taken on that in the process, as and when that is appropriate.

As you know, some of the anxiety of local authorities attaches to the fact that the process of supporting flood prevention or protection schemes has changed this year as a result of the concordat with local government and the removal of ring fencing from a number of funds that were previously held centrally. However, the new arrangements do not seem to have inhibited flood-related activity on the ground so far. A significant amount of activity—probably more than in any recent year—is going on this year and next year. Dialogue and discussion will continue between the Convention of Scottish Local Authorities and ministers on how best to approach such issues, and the concordat allows for matters to be raised on an interim basis.

A significant part of the next comprehensive spending review will be consideration of the challenges for local authorities on flooding and how best to support authorities.

**Jackie Baillie:** Has work been done on sizing the pot or determining how funding will be distributed? In the past, grants of 80 per cent were available. How will you prioritise? Is that work for another day?

**Bob Irvine:** Quite a lot is known about a number of schemes that are in preparation. Ministers have

indicated that we have a view on projects that are in gestation in this and the next spending review period and that, broadly, we expect those to be given priority within the overall approach. In the following period, the process that the bill puts in place will enable us to form a view on the resource requirements and on what schemes or proposals should have priority. That will be the subject of continuing discussions with COSLA.

**Jackie Baillie:** Local authorities have expressed concern about the variations that are likely to come about as a result of the plans and assessments that are being made. The views of landlocked local authorities on the extent of flood risk are different from those of authorities with huge coastlines. How will you ensure that funding is distributed equitably, based on risk?

**Bob Irvine:** That will be the subject of future discussion with COSLA. We took some account of the issue in the spending review, based on information from the most recently available SEPA maps. As the process moves forward and is refined, we may get a better idea of the relative flood riskiness—if that is the right word—of authorities. I expect that that will be a significant input into discussions with COSLA. At the moment we have no hard, defined, prescriptive parameters for those discussions—we simply recognise that they need to take place. Local authorities share that recognition.

**Jackie Baillie:** That is clearly the case, judging from the number of questions that local authorities had about mechanisms.

My final question relates to the assumption that urban areas will require more resources than rural areas. What is your definition of “urban” in that context? What evidence backs up the assumption?

**Bob Irvine:** I look to Judith Tracey for a definition of “urban”.

**Judith Tracey:** An urban area is not necessarily a large metropolitan area—it is any town area with flooding problems in addition to coastal and pluvial flooding, which are recognised. Any urban area that has problems with surface water run-off and pluvial flooding caused by drainage comes within the definition—it does not necessarily refer to Glasgow or Edinburgh, as opposed to much smaller towns. Small towns can have the same problems with surface water drainage as large towns.

**Jackie Baillie:** That is helpful clarification.

**The Convener:** The bill relates to the flood risk management planning process, rather than flood risk measures. What will we get from the work and spending that are proposed? Is that the final stage, or merely the first stage of a programme? What will the end product be?

**Bob Irvine:** It will be a series of flood risk maps, flood hazard maps and flood risk management plans that cover the entirety of Scotland, as well as discrete areas and districts of Scotland. The plans will present a view of flood risks and how they are best managed. The production of plans is a cyclical process that is required by the European Union floods directive—plans must be refreshed on a six-yearly basis. The process will give us not only a longer-term view of how flood risk can be managed across Scotland and the relative priority of particular areas of risk but a view on how risk has changed, either because of measures that have been introduced or because of climate change and other developments that have an impact on the way in which water behaves in catchments. It will present a continuing and continually updated view of flooding across Scotland at all levels, national and local, that is significantly beyond our present understanding of the issues.

14:30

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** If I heard you correctly, Mr Irvine, you said that you were monitoring spend on local flood-related activity. How are you doing that?

**Bob Irvine:** We intend to do it through the advisory groups that we have set up, which will continue in some shape or form as we begin to implement the bill. We expect that levels of resources and resource requirements and commitments will be set out in the flood risk management plans as they are prepared and authorised. As I have said, we will use that information as a basis for reporting to Parliament as the bill requires.

**Jeremy Purvis:** That is helpful, and it would also help if you were able to provide the committee with the current picture. I believe that you said that a significant amount of work—probably more than in previous years—was going on. It would also be helpful to see that evidence. Are you including the schemes approved under the previous funding mechanism with the plans that are being developed?

**Bob Irvine:** Yes. Those schemes are at various stages of preparation and gestation: some are being built, others are being tendered and so on. If it would help, we can certainly share with the committee our list of the activity that we understand is happening in various local authorities throughout Scotland.

**Jeremy Purvis:** That would help, because it would allow us to see what structure will be in place when the bill is implemented. As you know, although some local authorities had not prepared



bids for the previous funding, they had still developed their plans and they are concerned that if they do not meet the criteria that are set out in the bill, there might be a considerable hiatus before some of those plans can be implemented. As a result, that information would be helpful.

**Bob Irvine:** We are happy to send that to the committee.

**Judith Tracey:** We have quite close relationships with the people working on flood risk management in all the local authorities and they provide members of the team with reasonably regular updates of their plans, what they want to do in future and so on. Of course, when the grant scheme was in place, such meetings were more formal, because local authorities were required to tell us about, for example, how their plans would fit in with the scheme. However, we have kept up those contacts, because they provide very useful information and because we like to keep in touch with what local authorities are developing.

**Jeremy Purvis:** Now that the grant scheme is no longer in place, do you have a mechanism that allows you to see the profile of such activity?

**Judith Tracey:** The local authorities give us that information. We ask authorities for information and they provide useful biennial reports on flood risk in their areas. However, our face-to-face and other general contact with local authorities also provides us with a profile of the flood risk management measures that they are implementing.

**Jeremy Purvis:** It would be helpful to know what happened when the grant scheme was in place and what happens now.

**The Convener:** As there are no other questions from members or final comments from our witnesses, I thank Bob Irvine, David Reid and Judith Tracey for their attendance. Their evidence is much appreciated.

As agreed, we now move into private to consider our report on our methods of capital investment inquiry and our report on the Scottish Government's draft 2009-10 budget.

14:33

*Meeting continued in private until 17:37.*



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