

# **ECONOMY, ENERGY AND TOURISM COMMITTEE**

Wednesday 13 January 2010

Session 3

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## ECONOMY, ENERGY AND TOURISM COMMITTEE

### 2<sup>nd</sup> Meeting 2010, Session 3

#### CONVENER

\*Iain Smith (North East Fife) (LD)

#### DEPUTY CONVENER

\*Rob Gibson (Highlands and Islands) (SNP)

#### COMMITTEE MEMBERS

\*Ms Wendy Alexander (Paisley North) (Lab)

\*Gavin Brown (Lothians) (Con)

\*Christopher Harvie (Mid Scotland and Fife) (SNP)

\*Marilyn Livingstone (Kirkcaldy) (Lab)

\*Lewis Macdonald (Aberdeen Central) (Lab)

\*Stuart McMillan (West of Scotland) (SNP)

#### COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)

Alex Johnstone (North East Scotland) (Con)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

David Whitton (Strathkelvin and Bearsden) (Lab)

\*attended

#### THE FOLLOWING ALSO ATTENDED:

Liam McArthur (Orkney) (LD)

#### THE FOLLOWING GAVE EVIDENCE:

Margret Coutts (Scottish Government Human Resources and Corporate Services Directorate)

Maggie Craig (Association of British Insurers)

Colin Imrie (Scottish Government Business, Enterprise and Energy Directorate)

Jim Mather (Minister for Enterprise, Energy and Tourism)

Norman Macleod (Scottish Government Legal Directorate)

David Nish (Standard Life)

David Rennie (Scottish Government Business, Enterprise and Energy Directorate)

Stephen Wilson (Scottish Government Business, Enterprise and Energy Directorate)

#### CLERK TO THE COMMITTEE

Stephen Imrie

#### SENIOR ASSISTANT CLERK

Katy Orr

#### ASSISTANT CLERK

Gail Grant

#### LOCATION

Committee Room 5



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 13 January 2010*

[THE CONVENER *opened the meeting at 09:32*]

#### Beaully to Denny Power Line

**The Convener (Iain Smith):** I apologise for the slight delay in starting. Welcome to the second meeting in 2010 of the Economy, Energy and Tourism Committee. We have a fairly packed agenda, so I urge members and those who are giving evidence to keep questions and answers as brief, concise and to the point as possible. I welcome a guest member, Liam McArthur, who is entitled to participate in the question-and-answer session.

I welcome the Minister for Enterprise, Energy and Tourism to his first meeting of the committee in 2010—no doubt it will not be his last. Given that the scheduled business for which he was here this morning, the census order, has been withdrawn for the moment, I thank him for agreeing to deal with another item of business, the Beaully to Denny power line. A statement on the line was made in the chamber last week. The minister will be aware of the committee's support for the line and the urgency of the project. I invite him to make some brief opening remarks. We do not need to hear again the statement that was made last week, but the minister may have something additional to say at this point, before we move to questions.

**The Minister for Enterprise, Energy and Tourism (Jim Mather):** I will take the opportunity to do that. As the convener said, last Wednesday I made a statement to Parliament on my decision on the Beaully to Denny line. The decision to upgrade the line was not easy and has—rightly—generated a great deal of debate and discussion. Nevertheless, as I said in my statement, I believe that my decision is the right one for Scotland, striking the right balance between developing and delivering Scotland's energy future and protecting environmental, cultural heritage, economic and community issues. I echo that point this morning.

I granted consent for the project with a range of conditions that recognise the legitimate concerns of interests and communities along the length of the line. I hope that committee members have had ample opportunity to consider those in detail. The convener mentioned the committee's support for the replacement and upgrade of the Beaully to Denny line, as noted in its report on determining

and delivering on Scotland's energy future, published last year, which I welcome. I also welcome committee members' support for the replacement line during the subsequent parliamentary debate.

In addition, I am grateful for the committee's on-going interest in the project and see this morning as an opportunity to focus on the many issues surrounding my decision, such as the timescale for the project, the range of conditions that I have attached to the project and what they will mean and, more important, what is required of the power companies and others in delivering the project. This morning's session is an opportunity to discuss that in somewhat more depth and detail than was possible during the announcement on this major energy infrastructure development by way of my statement in the chamber, following the process and form agreed by the Parliamentary Bureau.

Thank you for the opportunity to brief the committee. I look forward to answering any questions that you have.

**The Convener:** Thank you for those opening remarks. I will start by asking about the timescale for the development. As you are aware, the committee was anxious that the project, which is crucial for unlocking Scotland's renewable energy potential, should go ahead as quickly as possible. It was unclear from the statement last week what implications the statement and the conditions that you mentioned would have for the construction timetable. Can you give us any indication of when work on the project—either parts of the project or the whole project—will commence and when it is likely to be completed?

**Jim Mather:** Sure. The most potent element of that has been the response from Colin Hood of Scottish and Southern Energy, who is saying that SSE hopes to be in a position to get construction under way this summer and will immediately implement a programme of meetings and events along the route to inform landowners and community and statutory bodies about its construction timetables. Given that 200km of the 220km is the responsibility of SSE, that is a positive sign. Equally, SSE is engaging with communities. That will trigger many of the conditions that we have applied to the route and start the whole process of SSE coming back to us with the mitigation that it plans in relation to both the specific rationalisation areas that the reporters recommended at the five points along the route and the three additional mitigation areas that we have identified at Stirling, Glenside and Auchilhanzie near Crieff.

**The Convener:** The conditions seem to imply that work cannot commence on any part of the line until the mitigation schemes have been agreed. Is

that the case? If not, what work can commence before the eight mitigation schemes have been agreed?

**Jim Mather:** It is a complex critical path. SSE has lots to do, including liaison with communities here and now. In essence, the mitigation and my satisfaction that it meets reasonable criteria are the key factors in triggering the process.

**The Convener:** You have not quite answered my question. Take for example the Stirling visual mitigation scheme. The condition clearly states that neither the overhead transmission line nor the towers carrying the line shall be installed or constructed in the area of Stirling Council until the applicant has submitted a scheme and it has been approved. There are similar conditions in the Perth and Kinross area and the Highlands and Islands area. My interpretation is that no transmission lines or towers can be constructed until all the mitigation schemes are in place in the relevant council areas. Is that the case, or can other preparatory work commence?

**Jim Mather:** I will bring in Norman Macleod on the legalities of that; I have one or two things to say in addition.

**Norman Macleod (Scottish Government Legal Directorate):** There is no delay aspect to that. The reason for phrasing the condition in that way is that it is important that the mitigation measures are in place and approved and agreed to and are seen to be deliverable before the works commence, rather than after they commence. They are specific to areas—the whole line is not affected.

**The Convener:** In effect, the whole line is affected, because the works in the Highlands and Islands cannot be done until all the mitigation schemes in the Highlands and Islands are agreed; the works in the Perth and Kinross area cannot be done until all the mitigation schemes in the Perth and Kinross area are agreed; and the works in the Stirling area cannot be done until all the mitigation schemes in the Stirling area are agreed. We are not talking just about the parts of the line that are subject to mitigation; the entire works in those areas cannot commence until the mitigation is agreed. Alternatively, can some of the preparatory works commence? That is what I am trying to get clarified. The condition refers to the towers and transmission lines. Would it allow some of the preparatory work to be done ahead of that?

**Norman Macleod:** Yes, it would.

**The Convener:** Thank you; that is the clarification that I sought.

**Jim Mather:** The preparatory work has to be done, but the key issue is that the companies will want to clarify the strength of the conditions, the

rationalisation and the mitigation that we have requested in order to allow them to build a whole and complete line and get the return on their investment that they require.

**The Convener:** The mitigation schemes have to be submitted to your satisfaction, but there is no indication in any of the conditions of what is likely to meet your satisfaction as regards the policy objectives of the schemes. That is very unclear. It must be difficult for the developers to know how to proceed if they have no indication from ministers of what is likely to be an acceptable scheme.

**Jim Mather:** It is not only the minister's view that is important, but the minister's view as informed by the witnesses, communities and submissions that were made to the public local inquiry and subsequently. The decision will be based on seeing the companies make material moves towards removing concerns.

It is worth reminding ourselves that the rationalisation schemes will also do a major tidy-up in five locations along the length of the line that have grown like Topsy over the past 40 to 50 years. The companies will remove some 84km or 85km of wirescape that has fed into the line; that in itself is a major factor that needs to be developed. However, early indications convince me that that is exactly what the companies intend to do. The early indication from Colin Hood that SSE is starting to engage with communities immediately is equally indicative of that.

**The Convener:** I understand your point, but in reality the people who have submitted objections to the line are unlikely to reach any agreement with the power companies that will satisfy them, other than perhaps on undergrounding the line. Is that one of the things that could be done as mitigation?

**Jim Mather:** It certainly could be done by way of mitigation. However, it is important to remember that the section 37 power allowed me only to approve overhead lines and the application was to improve an overhead line. I could not have called for undergrounding. I could have said yes to the application and applied stringent conditions, which I did, or I could have said no. The reporters did not recommend undergrounding. The conditions that we applied were informed by the communities, the witnesses, the submissions, the reporters, the panel of civil servants that was drawn from my department and others and my judgment. The conditions are stringent and cover a great deal of detail from the rationalisation mitigation through to working with tourism, culture and heritage and community groups, environmental issues, the appointment of independent environmental contractors and ensuring that we have a community liaison scheme that ensures that such liaison is real and material.

**The Convener:** You said that undergrounding could be one of the mitigation factors. Are you saying that types of mitigation other than undergrounding could be used? There is a hint in what you say that undergrounding might be the preferred approach.

**Jim Mather:** There could be resiting, rerouting or other visual mitigation measures, a change in pylon design or a range of other measures, but undergrounding is certainly an option for parts of the line. However, there are one or two fallacies about undergrounding, in as much as only small sections of the route could be underground in order to maintain the effective technical potency of the route. In addition, there are considerable concerns about the ecological, environmental and cultural heritage collateral damage of undergrounding.

**Rob Gibson (Highlands and Islands) (SNP):** Good morning, minister. You informed us in your statement that the National Grid has told you that 50 projects north of Beaulay, totalling 4.2GW, are awaiting transmission to markets. How much Scottish clean electricity production does that amount to?

09:45

**Jim Mather:** The figure of 4.2GW represents about two thirds of peak electricity demand in Scotland. When the line was announced, Willie Roe, the chairman of Highlands and Islands Enterprise, talked about the potential for the Highlands and Islands to be the renewable energy engine room of Europe. That is clearly a terrific possibility because of the impact that the line can have on rebalancing economic opportunities in the Highlands and giving communities the opportunity to benefit through participation or even ownership of their own renewable energy facilities.

We made the decision for all Scotland. It is interesting to look at the panoply of issues that needed to be considered. Clearly, we had to consider the visual impact and tourism, but we also had to decide which prospect would create the better economic opportunity and give the greatest security of energy supply. Today's *Financial Times* mentions big concerns about the security of the gas supply. Scotland will possibly be able to enrich its communities north and west of the Beaulay to Denny line, and will be much more energy independent, as well as an exporter of energy, energy technologies and energy intellectual property.

**Rob Gibson:** Perhaps some of the reality was given more force because of the Crown Estate's approval of the Moray Firth and Inchcape schemes, which involve more than 500 towers.

Will some of that electricity be fed through the Beaulay to Denny line, initially?

**Jim Mather:** I am not sure that that will be the case, but it could be. We also have a further 6.4GW of renewable energy being generated in Scottish territorial waters, so the question is material.

However, we must have the options available in an integrated grid system that is capable of working in concert, element by element, to give us the totality of grid facilities that we need. Not only are voices in Scotland from the likes of Professor Jim McDonald of the University of Strathclyde and the energy technology partnership calling for the evolution of the grid in Scotland towards smart grid, but calls are coming from further afield for us to integrate into and play a major part in a European smart grid. We need all the arteries that the committee has agreed with.

**Rob Gibson:** So the Beaulay to Denny line is the first link that will begin to free up the route for that huge amount of electricity, and it will be followed by other routes, including an undersea route. I suggest that you might have been hinting at that when we were talking about the offshore wind farms. The Beaulay to Denny line is the first, and it will be followed by others at a later stage.

**Jim Mather:** Exactly. The line is needed urgently because of the constraint that there would otherwise be on us harvesting the vast amount of energy that could be harvested along the length of the route, which is forecast to be 1.4GW, or 25 per cent of peak demand in Scotland.

**Rob Gibson:** Thank you.

I want to concentrate on sustainable development, particularly in the area at the north end of the Cairngorms national park, which is in the Highlands, the area that I represent. You have said that there will be a reduction in impact there. To be clear, previous Governments set up the national parks with sustainable development built into their credos. In your mind, minister, sustainable development would include the production and transmission of electricity.

**Jim Mather:** Very much so, albeit that we have proposed material mitigation for the national park through the rationalisation scheme, which will reduce 63km of current feed-in lines to the main line. We have also reduced the length of the line going through the national park from 35km to 28km, and reduced the number of pylons in the national park by almost a half, from 128 to 76.

**Rob Gibson:** So in the case of the national park, there will be an increased ability to see it as wild land while still supporting the core credo of sustainable development.

**Jim Mather:** Absolutely.

**Rob Gibson:** I am interested in the northern end of the power line, which I live quite close to, near Beaully. The substation there has been an issue for MSPs and the local communities. How do you see SSE mitigating the arrival there of a large number of power lines from north and west and the development of that substation? The issue is crucial to many people in the area.

**Jim Mather:** We have had pretty strong assurances from SSE, which now recognises the value of its status in respect of corporate social responsibility and how communities view it, if for no other reason than that it wants to develop further. I listened to Ian Ross, the Liberal Democrat planning convener of Highland Council, talk in very much the same vein; he said that he had found SSE to be a good corporate citizen and that it was, in essence, very sensitive to local concerns and making efforts to mitigate as best it could.

**Rob Gibson:** There is plenty of scope for local members to be involved in the mitigation committees and so on. Can you lay out for us a timetable and a process whereby local members, councillors and so on can be involved, as one of the means of reassuring people?

**Jim Mather:** In respect of the timescale, I advise people to be proactive as soon as possible. From the declaration of intent by Colin Hood, it can be seen that SSE intends not to sit on its thumbs at this point but to be engaged. From what Ian Ross said on the radio last week, it can be seen that Highland Council intends to be proactive and engaged as of now. We do not need to set out a timetable—the time is now and now is when that sort of stuff should be done.

**Colin Imrie (Scottish Government Business, Enterprise and Energy Directorate):** One of the rationalisation schemes that are proposed for the wirescape relates to Balblair wood, which is close to Beaully. The minister will make a decision on the proposal that is put to him in that case, but we expect consultation to take place with the communities and councils involved.

**Rob Gibson:** What might that consultation involve?

**Colin Imrie:** During the inquiry, the rationalisation scheme in and around Beaully was considered as a way forward. The exact details of what could be proposed are set out in the report, in relation to removing some of the existing surrounding wires.

**Rob Gibson:** The minister has been able to make decisions on the basis of what the reporter laid out in his report with regard to the potential mitigation factors.

**Jim Mather:** Exactly.

**Lewis Macdonald (Aberdeen Central) (Lab):**

As you will recall, I said in response to your statement last week that I welcomed your decision but that it had been somewhat delayed. I checked my records after your response to my comment and discovered that you assured my colleague Des McNulty a year ago that you would make a decision before the end of the calendar year 2009. Did you achieve that objective?

**Jim Mather:** I did. That did not make for the best of family Christmases, because I took myself away from the family, sat down with the papers and tried to pull things together. The report is enormous—it runs to six volumes. Even with the best will in the world and with the best distillation from skilled and committed civil servants, there was still a lot to get through.

The timeline of the report reaching my desk indicates that a considerable amount of work was involved from the planning application being made in 2005, through three separate elements of public consultation before the public local inquiry was announced in September 2006, started in February 2007 and finished in December 2007. It then took 14 months for the report to be published—when you see the volume of the report, you understand that timeframe. Then, when you consider that it took eight months for the board of officials and legal advisers and so on to get through that, you can see why the timeframes were as they were.

**Lewis Macdonald:** You made your decision in the remains of your Christmas lunch and you resisted the temptation to publish it in a blog in the meantime.

**Jim Mather:** I resisted putting it in a blog, but I have to say that I spoiled Christmas for quite a few officials by getting them together on 31 December to ensure that the commitment that I had given to Mr McNulty was honoured.

**Lewis Macdonald:** That was just-in-time delivery. I will press you on some aspects of what you said last week and since. This morning, you repeated the statement that you have no power to require the undergrounding of a section of the line. I welcome the fact that you rejected the proposition for large-scale undergrounding, but I do not feel that you have been clear in your rejection of it. Even in this week's press I have seen quotations from your ministerial colleague Keith Brown—similar comments have been made by Dave Thompson, a former member of this committee—suggesting that undergrounding is still an option.

In preparing their report, the reporters said clearly:

"Whilst it would be technically feasible ... to underground a section or sections of the line, we have not been



persuaded that any of the undergrounding proposals offers sufficient environmental advantages to justify the substantial increase in the cost of the project”.

Will you confirm that? That was the reporters’ conclusion and you specifically endorsed their conclusions in your decision letter. Is that the case?

**Jim Mather:** We endorsed their conclusions, but—

**Lewis Macdonald:** So you have ruled out undergrounding the Beaulieu to Denny line.

**Jim Mather:** We did the binary thing that we could do—we could approve the line with conditions or disapprove it. We applied the conditions that we could and put in place the request for mitigation and rationalisation, leaving it open to the companies to come back to us with the option of undergrounding and satisfy me that it is a reasonable mitigation and rationalisation proposal.

**Lewis Macdonald:** Correct me if I am wrong, but you have endorsed unconditionally the conclusion of the reporters that undergrounding the Beaulieu to Denny line offers no advantages. Is that not the case?

**Jim Mather:** We have held with the mitigation and rationalisation conditions the ability to approve or disapprove any proposed mitigation schemes, therefore leaving space for the companies to propose undergrounding, repositioning, rerouting or other mitigation measures.

**Lewis Macdonald:** I read the conditions that you applied, in which you sought the undergrounding of some of the lines that feed into the Beaulieu to Denny line. However, you did not seek to underground any of the Beaulieu to Denny line. Is that not correct?

**Jim Mather:** This is a binary situation. I will ask Norman Macleod, as a lawyer, to give you the clarity that he has given me.

**Norman Macleod:** On the technical legal powers, section 37 is about granting consent for overhead lines. You pointed out correctly that the conditions attached to rationalisation schemes require any proposals that are made to include proposals for undergrounding various existing other lines. In the case of granting consent for an overhead main line, if I may call it that, the companies have to make proposals to underground other lines. As a separate issue, consent for the main line is either consent or refusal of consent for an overhead line.

**Lewis Macdonald:** So there will be an overhead line all the way from Beaulieu to Denny and that is explicit and specific in the consent that you have given.

**Jim Mather:** That is not the case. The consent still leaves space for the companies to come back.

**Lewis Macdonald:** What Mr Macleod said was clear—you have consented to an overhead line all the way from Beaulieu to Denny. Is that not the case?

**Jim Mather:** With the requirement of mitigation.

**Lewis Macdonald:** It is an overhead line. You said that you did not have a middle option—you either consented to an overhead line or you did not, and you have consented to an overhead line from Beaulieu to Denny. That is the case, is it not?

**Jim Mather:** We have consented to an overhead line from Beaulieu to Denny with stringent mitigation requirements.

**Lewis Macdonald:** There is no requirement to underground any part of that line.

**Jim Mather:** We cannot require the companies to underground the line, but we can require them to mitigate. That leaves them the option to mitigate by undergrounding.

**Lewis Macdonald:** You have said again that you cannot require undergrounding. You will be aware that other planning authorities have obtained the undergrounding of stretches of line. One example is in Yorkshire, and I am sure that you are aware of the Scotland to Northern Ireland interconnector, which was developed under a previous Administration. What happens is that the authority withholds consent for a section of overhead line, so that it is required to be put underground. You chose not to do that.

10:00

**Jim Mather:** We chose not to do that because we thought that the national interest required whole-line consent. We have left an option that could result in our obtaining some undergrounding.

**Lewis Macdonald:** Has either developer indicated that they are likely to propose undergrounding any part of the Beaulieu to Denny line?

**Jim Mather:** I have not yet had detailed discussion with developers. I was somewhat in purdah until the decision was made.

**Lewis Macdonald:** The mechanism by which you could require undergrounding, if you wanted to do that, would be the withholding of consent for part of the line. I think that we have agreed that that is the case.

In your statement to the Parliament last week, you said:

"In addition to the five mitigation schemes recommended by the reporters ... I have asked for further measures to mitigate as far as possible the visual impact of the line in the Stirling area, at Glenside near Plean and at Auchilhanzie house near Crieff."—[*Official Report*, 6 January 2010; c 22409.]

At the time members did not have the advantage of having seen the accompanying documents. Did your comment accurately describe your response to the reporters' recommendations on Auchilhanzie and Glenside?

**Jim Mather:** Yes, it did. We had factual back-up to support that, and the general tone was that that was the right thing to do, in the wider national interest.

It is worth investigating the wider national interest further. It is about playing a full part in the United Kingdom grid. It is about economic development and ensuring that there is security of supply in Scotland. It is about the balance of payments. Powerful national interests are at stake.

**Lewis Macdonald:** I understand the wider issues, but I am concerned about the potential for what you said in Parliament to mislead people about your response to the recommendations. As I understand it from volume 6 of the report, the reporters did not make no recommendation in relation to Glenside and Auchilhanzie, as might reasonably have been inferred from your statement; they recommended that you withhold consent for those stretches.

**Jim Mather:** Indeed they did, but we had to make a decision in the national interest to have whole-line consent, to guarantee that the line would come into play, release Scotland's renewable energy potential, protect our security of supply, boost our balance of payments and address all the other positive, macro-level issues that we must consider.

**Lewis Macdonald:** Would it not have been more accurate and helpful to members if you had told Parliament last week that the reporters had recommended withholding consent for two stretches, in relation to which they did not support the proposal, and that you had turned down that recommendation and proposed something else instead?

**Jim Mather:** We were very much constrained by time. I had to get across the view that I had come to. The issue that was before Parliament was a statement about the decision that I had come to. That is what I tried to convey.

**Lewis Macdonald:** That is absolutely so, but for many people the central issue of the application has been the undergrounding of part of the line, and the one power that you have is to withhold consent for part of the line, as you have said. I think that you made the right decision, but I do not

understand why you did not tell anybody that you had decided to reject the recommendation that consent should not be given in those areas.

**Jim Mather:** With respect, you are ignoring the residual power that I have to accept or reject the mitigation scheme that is proposed.

**Lewis Macdonald:** The reporters specifically recommended that you withhold consent for two stretches of line. You chose not just to turn down the recommendation, but to ignore it altogether in your statement to Parliament.

**Jim Mather:** We had to make a decision in the best interests of all of Scotland. That was the decision that I took.

**Lewis Macdonald:** I understand that that was your responsibility, but Parliament expected a full explanation of the key points in the report. We did not see the report until after the statement and questions and answers on it were concluded. When we were asking you about your statement we did not know that the reporters had recommended that you withhold consent and that you had overruled that recommendation.

**Jim Mather:** That is a matter of regret, but it is a matter of fact. That is where we are.

**Lewis Macdonald:** I asked you last week about the impact and the requirements on lines that feed into the Beaully to Denny route. In your statement, you said that you would seek the undergrounding or improvement of some of those lines. I asked you how much of the 86.5km that is involved would be underground. When I obtained the papers, I was struck that it appears that the underground requirement is specific and applies to specific parts. I would be grateful if you or your officials now answered my question: how much of the 86.5km for which you want the developers to underground or improve the wirescape will be underground?

**Jim Mather:** The matter is very much for the developers. The reporters make it clear that undergrounding could cause material ecological damage and damage locations of cultural and heritage interest. We will have to wait and see what the developers propose to mitigate the wirescape impact.

**Lewis Macdonald:** Condition 18 for Scottish Power Transmission says:

"The Wirescape Rationalisation Scheme is to include proposals for ... the removal of and undergrounding of 7 spans of ... double circuit ... ('the Stirling T')",

of a further seven spans between numbered towers and of five spans further along the line. I presume that that involves lengths of wire that can be measured, regardless of the detailed proposal.

On how much wire do those conditions have an impact?

**Jim Mather:** One condition relates to 8.3km and another relates to 8km, so substantial lengths are involved.

**Lewis Macdonald:** That is 16.3km that will be undergrounded in the Stirling area.

**Jim Mather:** There is that potential.

**Lewis Macdonald:** We are talking about a condition. The document does not say that including such proposals is an option; it requires the removal and undergrounding of the spans. Am I correct to say that that is a requirement rather than an invitation to suggest mitigation measures?

**Jim Mather:** That is us being absolutely clear about what we expect.

**Lewis Macdonald:** Does Mr Macleod have something to add?

**Norman Macleod:** It is a requirement that the proposals include the measures that you described—you are right.

**Lewis Macdonald:** So the requirements are mandatory—they are firm and fixed requirements on the developers to underground sections of ancillary line. Is that correct?

**Norman Macleod:** That is what the proposals must include.

**Lewis Macdonald:** That is what the proposals must include—that is helpful.

I will touch on one other issue. In your statement to Parliament, you talked about engaging communities. The conditions establish a tourism, cultural heritage and community liaison group. Last week, I formed the impression—I might have been alone in it, but I suspect that others formed it, too—that that group would provide an opportunity for direct engagement at the community level with developers, the Government or both. However, it transpires from the conditions that the group includes no direct community representation, other than the important participation of local authorities. No community-level engagement is built in, contrary to the impression that I formed from your statement.

**Jim Mather:** You must also take into account what Scottish and Southern Energy says about its desire for engagement and what WWF says about how we have dealt with communities' serious concerns to date.

The conditions require not only the tourism, cultural heritage and community liaison group, but the environmental liaison group, the independent environmental contractor and the community liaison scheme to maintain close liaison with

community representatives, landowners and statutory consultees throughout the construction process. I expect that to be honoured to the letter.

**Lewis Macdonald:** No condition requires formal engagement with community councils or other associations of local people, for example.

**Jim Mather:** The formality in this case will be much more a function of the style that has been set by the consultation that took place under the previous Administration, through the PLI, and is continuing now in terms of the active lobbying and engagement of the companies. Earlier, I said to Mr Gibson that the commitment to corporate social responsibility on the part of Scottish and Southern Energy and Scottish Power is manifest, because those companies realise that they need to have the good will of communities and the wider Scottish populace in order to fulfil their own objectives and achieve the level of carbon-free energy production that they want to achieve by 2050.

**Gavin Brown (Lothians) (Con):** I apologise to the committee and the minister for my late arrival. As I and others wade through the documents, it is not 100 per cent clear what the impact of the conditions is likely to be on the power companies and the various ecological groups. Obviously, you have had this matter on your desk for 11 months or thereabouts—

**Jim Mather:** Two and a half months.

**Gavin Brown:** My apologies. You have, however, had more time to go through the issues in detail than those of us who have had only a week or so in which to consider the matter. Scottish and Southern Energy's official response to the conditions, as of last night, is that full evaluation takes time. Having had a longer time in which to consider the matter, what do you think the impact of the conditions will be on the power companies in terms of time and in terms of cost?

**Jim Mather:** There was an estimate of £50 million for the rationalisation scheme. Given that the details of the mitigation schemes are still largely to be firmed up, it would be naive of me to put a price on them. We have developed a process of engagement with the companies that will ensure that they are subject to a full spectrum of scrutiny in Scotland—scrutiny on the part not only of the communities and the PLI, but of the Parliament and the press. The companies will be duty bound to do their very best and will have to recognise that there is a binary decision with regard to whether I sign off the mitigation and rationalisation schemes, and my decision will be based on whether they meet the criteria that I believe they should meet.

**Gavin Brown:** To paraphrase what you have just said, the companies will consider the matter in

detail and come back with estimates of what they think the impacts will be in terms of cost and time. Obviously, you cannot make an accurate prediction of what the cost will be, but it seems that you are saying that your best estimate is that it might come to an additional £50 million.

**Jim Mather:** I think that a sum of £51.6 million is associated with the rationalisation scheme.

**Colin Imrie:** That is the figure for the five rationalisation schemes, which, as the minister said, have already been set out in some detail in the conditions. With regard to extra costs that might be involved as a result of further mitigation schemes that relate to screening, landscaping or small sections of undergrounding, for example, there will be discussions with the funder of the route. In this context, the funder is the Office of Gas and Electricity Markets, to which we have been talking to ensure that it is in the loop. It will be important that the funder's approval is gained at the same time as the proposals are put to the minister for his approval.

**Gavin Brown:** Are there any estimates for the impact on the timescale for the completion of the line?

**Jim Mather:** I have seen no specific estimate on that. Again, however, the rapidity with which the companies were out of the starting stalls with regard to discussions about engagement suggests that they intend to treat the project as one of some urgency.

**Gavin Brown:** In the chamber last week I asked about the impact of conditions from an ecological or landscape point of view. I felt that I was told that that ball was in the companies' court and that they would be the ones who would come up with suggestions and ideas. You have set out conditions—there were 73 groups, and there are more than 300 conditions in total. Is there anything in there that will make a specific difference from a landscape or an ecological point of view?

10:15

**Jim Mather:** Can you clarify your question?

**Gavin Brown:** Sure. Groups were campaigning against the entire line or certain sections of it. Given the number of conditions that you have issued, it will take time for anyone to go through them and work out what the impact will be. You have had the list of conditions in front of you for a couple of months. Are there any particular ones that you can point to and say that they will make a big difference in terms of the landscape or the minimisation of ecological damage?

**Jim Mather:** The prime one that I would point to is the construction policy handbook, which is a legal document that has been agreed with

ministers on how the development is to be sensitively constructed and managed.

It is worth considering the situation in totality, because public consciousness often ignores the fact that the line is a replacement for the existing 132kV line, which will be removed. The new line takes a more sensitive route and will involve a dramatic tidy-up with regard to the rationalisation schemes at the five points and the length of the line. The mitigation that we are requesting will dramatically improve the environmental impact in the longer term. I am seeking an overall long-term positive conclusion. I invite my officials to comment.

**Colin Imrie:** I will comment on ecological and landscape impacts. Members will have read the report and seen that in the Cairngorms, for example, the reporters found that undergrounding would actually cause ecological damage in certain areas, particularly in the eight special areas of conservation along the proposed line that were set up under the Natura 2000 rules. We spent eight months at official level getting the advice ready and putting the appropriate assessments in place to ensure that the proposals would not cause ecological damage. A balance is needed in a national park not only in relation to sustainable development, but between ecological issues and landscape issues, which are not necessarily the same. One of the reasons for the wirescape rationalisation scheme is to deal with the landscape impact and, in certain cases, the ecological impact. The construction procedures handbook will ensure that the ecological impact is minimised as much as possible, so that we can meet our commitment under national and European legislation not to cause any damage to the integrity of protected sites.

**Ms Wendy Alexander (Paisley North) (Lab):** I will focus on the implications of the process for the planning system as a whole. Others have mentioned the length of the process. The line was conceived and work began in 2001-02. Even prior to the formal process that began in 2005, there were 18 months of pre-application public consultations; 10 months of gathering evidence—as you mentioned, minister—in the largest public inquiry ever to be held in Scotland; 13 months during which the reporters assessed the evidence; and, finally, a further 11 months in which the proposals were considered in the Scottish Government, first at official level and then at ministerial level.

Given that exhaustive process, can you clarify the total number of recommendations that the reporters made, and tell us how many were accepted and how many were rejected?

**Jim Mather:** I am not sure that we have—

**Ms Alexander:** I am happy for you to turn to your officials. This is a critical issue on which I want a simple answer from officials—given that you have had 11 months to consider the report—about the total number of recommendations at the end of the decade-long process, how many were accepted, and how many were rejected. There is no trickery—it is a straightforward question.

**Jim Mather:** That would be useful; we will consider it and come back to you, and feed that information into our—

**Ms Alexander:** Convener, I would like to press officials on that now. How many recommendations did the reporters make, how many were accepted and how many were rejected?

**Stephen Wilson (Scottish Government Business, Enterprise and Energy Directorate):** There was really just one recommendation: that permission to build the line be granted, with the two gaps that have been mentioned. The reporters recommended all the conditions that you see in the consent letters, minus the condition for the tourism, cultural heritage and community liaison group and the Stirling mitigation scheme.

**Ms Alexander:** How many of the conditions that were recommended by the reporters were accepted by ministers and how many were rejected?

**Colin Imrie:** I will clarify Stephen Wilson's point. All the conditions that have been imposed follow the reporters' recommendations, with the exception of the addition of the Stirling visual impact mitigation scheme and the tourism, cultural heritage and community liaison group. The minister also decided to reject the reporters' recommendation that gaps be left in the cases of Glenside and Auchilhanzie in favour of visual mitigation schemes with conditions that are similar, although not identical, to those that were set out for the Stirling visual mitigation scheme.

As well as translating the reporters' recommendations, which were not legal conditions, into the legal conditions that appear in the document, we carried out a process of due diligence on all aspects of the report, to ensure that all the information that we needed to help us to advise the minister on carrying out his functions was there. In addition, we had to carry out the eight appropriate assessments under the habitats directive, which had not been carried out, although much of the information was available, to ensure that the minister met requirements under that legislation.

**Ms Alexander:** Which conditions recommended by the reporters were rejected?

**Colin Imrie:** The conditions relating to the two gaps in the line were rejected and replaced by

visual impact mitigation schemes. I am looking at Norman Macleod, to ensure that I have not missed anything.

**Ms Alexander:** Those comments are helpful. How many additional conditions not recommended by the reporters have been added as a result of last week's ministerial decision? I could reach a rough judgment from reading the statement, but I would prefer an itemisation of those additional conditions to appear in the *Official Report*.

**Jim Mather:** They include the Stirling visual mitigation scheme, the Auchilhanzie visual mitigation scheme, the Glenside mitigation scheme, near Plean, and the tourism, cultural heritage and community liaison group.

**Ms Alexander:** What about the environmental liaison group and the construction procedures handbook?

**Jim Mather:** Those were already in place. The tourism, cultural heritage and community liaison group is an addition.

**Ms Alexander:** Anyone reading the statement would reach the view that the environmental liaison group, the tourism, cultural heritage and community liaison group, the construction procedures handbook, and the conditions on pollution, landscaping, support for local business, community engagement and minimising noise and traffic during construction were all additional. I am trying to establish the total number of additional conditions that the reporters did not recommend but that the minister added. There is no trick—what conditions were additional to those that the reporters recommended? We have dealt with the three mitigation schemes.

**Jim Mather:** The three mitigation schemes plus the tourism, cultural heritage and community group are additional. The conditions that the reporters proposed were endorsed.

**Ms Alexander:** Is there any precedent in the consideration of other major reporters' inquiries in recent years for the additional conditions that have been added during this process?

**Norman Macleod:** The best way of answering the question is to say that these conditions are substantively the same as those that the reporters recommended, although they are not exactly the same numerically and are reworded.

Under section 37 of the 1989 act, ministers have powers to impose conditions as they consider appropriate. The reporters make recommendations in that regard. I do not have the information to confirm whether or not the conditions that apply in this case follow a precedent, but the powers that are available to ministers certainly allow conditions to be imposed that are additional to, and come out of, the report.

**Ms Alexander:** I am trying to understand the implications for the planning process. It is not unreasonable to ask what the recent precedents are for the addition of substantial conditions by the minister following a reporter's consideration. Again, this is not a trick question—this is about trying to understand the evolution of the planning system. Is the number of additional conditions that are being imposed in this case frequent or rare?

**Jim Mather:** Colin Imrie has an example.

**Ms Alexander:** It is not an example that I am looking for; I am asking how frequent is the imposition of the range and complexity of additional conditions that apply in this case.

**Norman Macleod:** It is difficult to say in general terms, as we cannot do a like-for-like comparison. The Beaulieu to Denny line is an extraordinary consent application and determination in itself.

I do not think that there are any significant distinctions between the consent regime under the Electricity Act 1989, which allows conditions to be imposed following a recommendation by a reporter, and a planning decision following a planning application. If a decision is called in by ministers, or if a decision on appeal is determined by ministers, rather than by the reporter's office, ministers would be entitled to restructure the terms and conditions or to impose new ones, as they consider appropriate. I do not think that any precedents are being set in this case.

**Colin Imrie:** I can add something from my experience with energy consents. The Clyde wind farm was decided on during the summer of 2008. The reporter recommended that it go ahead, but there was a gap in the recommendations in that there were no specific conditions on the wind farm's impact on aviation and radar. Even though the minister agreed with the reporter's findings of fact and specific recommendations, we needed to add extra conditions to deal with the fact that that issue had not been tackled.

It is a quite normal part of the process that, when the proposal is considered at official level and advice is given to ministers for their final decision, the reporter's recommendations, such as they are, need to be translated into conditions that do not exactly equate to the conditions that the reporter proposed.

**Ms Alexander:** We have established that some conditions in this case have been rejected—not simply rewritten—while others have been added. I am probing the unusual nature of the conditions that have been added, which require ministerial sign-off and decision. A question has already been asked about who will arbitrate on whether the mitigation has been met. We have heard that it will be the minister. When we have asked about the timescale involved, we have been told, "Don't

know. No guidelines." When we have asked what the process is for a developer to prove that the conditions have been met, the answer has been, "Sorry. No process." I cannot think of any precedent where that sort of condition has been applied. I am not sure that it adds to the simplicity of the planning system, which we are allegedly trying to promote, if we have no guidelines or timescale of any kind with regard to how the minister, personally, will establish whether the newly imposed conditions have or have not been met. Do you have any concerns in that regard?

**Norman Macleod:** No, I do not.

**Ms Alexander:** Can we expect guidelines?

**Norman Macleod:** This form of conditions that require subsequent approvals is commonplace. It is a normal part of both planning systems and all Electricity Act 1989 consents. The fact that the applicant requires to return for further approvals is absolutely normal.

**Ms Alexander:** That is indeed so, but can the applicant expect any guidance on what is required to meet the conditions? That is entirely absent from official statements so far.

**Norman Macleod:** That is more a question for Colin Imrie's team.

10:30

**Colin Imrie:** I understand your question. There is clear guidance in the report in relation to the conditions that are set out in it. The guidance on the additional conditions is in the minister's statement. We will meet the companies—we meet SSE on Monday—to clarify to them the legal implications of the normal practice, which Norman Macleod mentioned, of requiring them to come back with specific proposals for a decision by the minister. The conditions also contain a requirement to consult affected parties, be that the council in the case of the Stirling mitigation scheme, or the landowners and occupiers in the case of the Glenside and Auchilhanzie scheme.

**Ms Alexander:** Do you regard yourselves as obliged to share with the Parliament what the conditions will be for the mitigation requirements having been met? The minister said that that is open-ended. We have no timescale and no guidelines. Of course there will be discussions with the developer. The question is whether the conditions will be shared with the Parliament and other interested parties and, if so, when.

**Jim Mather:** We have run the matter on the same process of openness that we have used to deal with other things under my watch, and we intend to continue with that. I was restricted in that I could only make conditions that were based on fact. We had to go back to first principles and

produce further conditions that were based on facts that were before the reporter. We made our interpretation of them, which we believe strengthened and aligned things more with the needs of everyone involved.

**Ms Alexander:** I will let others pursue that.

**Stuart McMillan (West of Scotland) (SNP):** I want to clarify a point about the timescale. The process has gone on for some time, as Wendy Alexander said a few moments ago, but you said earlier that you had the report on your desk for only two and a half months. Will you clarify why the period was two and a half months rather than the 11 months that has been alluded to and mentioned in the public domain?

**Jim Mather:** Two and a half months represents 4 per cent of the overall time that the process has taken, from the time when the planning application was put in to the time when the decision was taken. In essence, the two and half months were taken up with trying to get into the detail of the report, understanding its nuances, talking to officials and the panel that we had to review the output of the final report, drawing conclusions based on that, and trying to understand those issues in the context of the flurry of late submissions that came in towards the middle of December. There was a huge amount of material to read, assimilate and try to make sense of, but I believe that I did that.

Also, I had to set out the decision in a rational way that took into account all the factors that were involved. There were many factors beyond the visual impact issues that are associated with the conditions, such as the tidying up that we could achieve; the wider strategic upgrades of which the line is a part; improving security of supply; the harvesting of energy; the invigorating of our renewables sector; positioning Scotland's balance of payments; according with the views of the Economy, Energy and Tourism Committee, the Parliament, the political parties and the reporters; boosting Scotland's competitiveness; encouraging further investment; and minimising the overall impact. Beyond that, there is also the issue of supporting efforts to tackle climate change in Scotland and playing our full part in European Union and UK grid integration. It was a hugely complex decision to engage with. I took the time to ensure that I could do that in a rational way that could be justified and which would allow people to see that there were many more factors that also had to be taken into account than individual members of the public or individual communities may have seen.

**Stuart McMillan:** You touched on a couple of areas on which I have questions, one of which is the impact of the scheme on our cultural heritage. I am thinking of two examples in particular: the

Wallace monument and the Sheriffmuir battleground. What measures have you taken to ensure that the development does not impact adversely on Scotland's cultural history and heritage?

**Jim Mather:** As you can imagine, we took advice and engaged heavily with Historic Scotland in both those examples. There has been a fair bit of misrepresentation around the impact of the scheme on the Wallace monument. The nearest pylon is about 1.2km away from the monument and is sited low down on the carse, in a largely industrial landscape. The monument is 177m high; the tower in question is about 51m or 52m high—*[Interruption.]* I am told reliably that it is 58.5m high.

Historic Scotland is of the view that the impact on the historic Sheriffmuir battle site would be minimal and acceptable. The issue is that of maintaining the integrity of the site. That work will continue much as before. We need to remember that the existing line will be removed.

**Stuart McMillan:** I turn to climate change targets, which we have heard a lot about over the past week following your statement. What will the Beaulieu to Denny development bring to the table? What will it help to achieve in relation to Scottish and UK climate change targets?

**Jim Mather:** It will be monumental. It opens up the renewable energy engine room that Willy Roe talked about and triggers Professor Jim McDonald's vision for the grid getting us to a position where we generate much more carbon-free energy in Scotland. It also chimes very much with the views of the commentator Chris Goodall, who was part of a panel session on "Newsnight Scotland" about six weeks ago, following the programme "The Power of Scotland" in which the potential was identified. The development puts out a really powerful signal that Scotland is absolutely serious about harvesting the huge bounty of renewable energy that we have the potential to exploit and that we are indeed deadly serious about backing up the Climate Change (Scotland) Act 2009.

It is interesting to note that, in bringing the Arbitration (Scotland) Bill to the Parliament, we made contact with two of the world's leading mediators: William Ury from Harvard and Professor Ken Cloke from California. We now know that both are fascinated by what is happening in Scotland. They see that Scotland has got substantial ducks in a row. We have the Climate Change (Scotland) Act 2009; we have huge potential in renewables; and we are building the grid capability to make real our renewables potential. They now see Scotland as a place where they want to put in the effort, good will and support to help us to develop such that Scotland becomes a role model for other places.

We have to see the development in that context. Having won this lottery of life in terms of renewables, we are now making the right decisions along the line to harvest them. We can be that role model. We are talking not about a kind of benign philanthropy but about taking the opportunity to export energy, technologies, intellectual property rights and skilled people, just as we did with the oil and gas phenomenon—I am thinking in particular of oil and gas support services in that key sector in Scotland.

**Stuart McMillan:** I would like to clarify a point about achieving targets. Am I correct in thinking that you regard the Beaully to Denny line as a first step along with other developments such as the subsea cable, or could the subsea cable have been introduced instead of the Beaully to Denny line?

**Jim Mather:** It was never a question of having the subsea cable instead of the Beaully to Denny line; rather, the subsea cable complements the line, the path of which was required to support Scotland's renewable energy potential and the harvesting of power down the line. There are plans for a comprehensive upgrade of the grid in national planning framework 2, which is critically important to Scotland, to the rest of the UK's climate change and renewables targets and to Europe. We spent a good deal of time engaging with Georg Adamowitsch, the European Union grid co-ordinator, and got the message across to him that Scotland can play an important part in Europe in relation to climate change, renewables and security of supply. However, that will require grid development, not just from Scotland but from the rest of the UK and Europe. We have put ourselves back on the map and have made a declaration of intent that will be seen by Europe. I look forward to being rewarded by Europe in terms of its investment in the North Sea grid in the years to come.

**Stuart McMillan:** How many homes and properties will be within 1km of the Beaully to Denny line?

**Jim Mather:** I do not have an easy answer to that question, although I have an answer on those that are within 100m and 200m of the line. There are only three houses within 100m, and 92 houses within 200m, of the consented line. However, there are 94 houses within 100m of the existing line, so there will be a reduction of 91 with regard to the consented line, and there are 209 houses within 100m to 200m of the existing line. The consented line ameliorates the situation, which I am happy about.

**Marilyn Livingstone (Kirkcaldy) (Lab):** I will follow up a previous question about employment in the area. It is estimated that 500 jobs will be created during the construction of the line. Will the

contracts that will determine the various issues stipulate any training requirements?

**Jim Mather:** I am pretty sure that training requirements will come through. We are talking about a development that occurs once in a generation, and key skills and young, fit people will be required to handle the job.

**Marilyn Livingstone:** I was thinking more of modern apprenticeships. I know that some Government contracts include the requirement to train. You are talking about the Beaully to Denny line being the first of many projects, so you will obviously want to train the next generation. I am asking whether the scheme includes a stipulation to train young people and adult returners through modern apprenticeships.

**Jim Mather:** I am not sure about that, but I will make a point of finding out. I can tell you that Scottish and Southern Energy and other energy companies have already made significant announcements and movements on the issue, including the inauguration of a new education facility on the University of Strathclyde campus, in collaboration with the university. I expect to see that facility grow. The key issue here is corporate social responsibility, and we are seeing companies in the new, more accountable Scotland being more aware of that, either by doing the right thing by communities or by investing and spending their money in Scotland, creating and sustaining Scottish jobs.

**Marilyn Livingstone:** Thank you. I would appreciate a follow-up from you on the training issue.

**Jim Mather:** I take note of that.

**Marilyn Livingstone:** As part of the package, obsolete power lines will be removed from the Cairngorms national park. From what I have read, I know that communities are quite keen for those lines to be removed. Can you tell me when and where that removal will take place and whether it will be done in conjunction with the building of the new power line, in order to minimise disruption to communities?

10:45

**Jim Mather:** We have put in place conditions, and we expect the companies to handle the matter in the speediest way possible. There is a conjunction of interests with regard to this matter. It is as much in the interests of the companies to co-ordinate their efforts and ensure that their tasks are completed as crisply and efficiently as possible as it is in the interests of the communities for them to do so. We intend to stay engaged with the process to ensure that that is an element of the criteria. The involvement of the liaison groups that



we have identified and the active involvement of councils and of councillors such as Ian Ross in Highland Council will ensure that we get the desired result. A considerable amount of good will can be harvested in relation to this issue, and we intend to ensure that that happens.

**Liam McArthur (Orkney) (LD):** I am conscious of the time, and of the fact that almost everything that must be said has been said, although not everyone has said it. I reiterate my support for the decision to consent to this application. However, as no one needs to be reminded, the development has deeply divided opinion and there is a risk that mixed messages might be sent out.

Earlier, you said that the consent would be forthcoming only where the developer produces mitigation measures that are to your satisfaction, and you mentioned rerouting, resiting, pylon design and undergrounding as examples of such measures. Later, however, you said that it was important that the mitigation measures were to the satisfaction not only of yourself but of the communities that would be affected. That sends out rather a mixed message, as it suggests that there is more to play for than there perhaps is. I would be grateful if you could clarify what scope there is for communities to get involved and what weight will be given to the views of the tourism, cultural heritage and community liaison group.

Last week, you said:

"I have no reason to believe that the project will require further consents."—[*Official Report*, 6 January 2010; c 22418.]

Do I take it from that that any of the mitigation measures to which you have referred will not require further consents and that, in a sense, you have reached a glass ceiling in terms of the mitigation measures that you will be seeking?

**Jim Mather:** The reporters and I have been sensitive to the views of communities, and that will continue to be the case. The reporters' final conclusions and recommendations were considerable evidence of that. At the end of the day, the decision will be mine to make, but I am open to all and any inputs and submissions, as I think that I have proven today. The structure that we have put in place, with the tourism, cultural heritage and community liaison group, the environmental liaison group, the independent environmental contractor and the community liaison schemes, ensures that the voice of communities will be heard—their views can also be expressed through their councillors and councils.

I do not envisage there being further planning consents, but that may well happen. The companies might raise issues that might necessitate further planning consents. If they do, we will address them at that time.

**Liam McArthur:** So, at the meeting that you will have on Monday with SSE, you will not be able to reassure the company that no further legal consents will be required in relation to mitigation measures.

**Jim Mather:** It will not be possible to state that in blank terms. I ask Norman Macleod to give you some clarity on that matter.

**Norman Macleod:** I am not really speaking about the meeting on Monday but, in general, it is for the applicant to bring forward proposals, and the applicant will have sought legal and expert advice about the impact that the proposals are likely to have on other statutory regimes.

**Liam McArthur:** You will appreciate that, in the run-up to the decision, the company's concern was that further legal consents would be required and that that would delay the initiation of the work, which is the company's real concern.

It is unlikely that the company will, in its engagement with the communities, offer mitigation measures that will, in its view—or rather, the view of its legal advisers—require further legal consents. When the minister said that he had no reason to believe that the project would require further consents, he was saying that there is, in a sense, a backstop, and that the company need not go any further than the measures for which its own legal advice is that it will not require further legal consents. Is that what you are saying?

**Norman Macleod:** I do not think that we can say that at this stage. It is for the company to bring forward proposals; that is what the conditions envisage. If those proposals require extra consents, the company will no doubt present its case for why they should be approved.

**Colin Imrie:** For clarification, the purpose of the meeting on Monday is to do no more than explain what the conditions say, particularly with regard to the point about consultation. The condition that relates to Stirling says that the minister will consult Stirling Council before reaching his final decision. The minister, in his statement last week, encouraged the company to carry out prior consultation with councils, so Stirling Council is aware that it will be consulted beforehand, which is key. We will draw attention to the procedures and to what was said in the statement; we will not say any more than that.

**Liam McArthur:** But you appreciate that there is a risk with regard to the consultation of a number of the affected communities. I appreciate that it is almost inevitable that views will not be reconciled on the issue, but if there is a backstop beyond which the company will not be expected to go, or would not want to go of its own volition, that will affect a number of those communities. In his statement last week, the minister appeared to

suggest that he supported the company in the view that further legal consents would not be required.

**Jim Mather:** Again, it is a matter for the company—we will handle that issue as it comes forward.

**The Convener:** I call Christopher Harvie—I am sorry that I missed him out earlier.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** I appeared for the people in the Stirling area who are concerned about the passage of the power system through Stirling and would prefer that the line is undergrounded. There still seems to be some ambiguity around that. What is your view on that, minister, in the context of the two schemes that are coming up not as alternatives to the line, but as developments to which Scotland will have to contribute? One is the North Sea grid, and the other is the immensely ambitious Desertec project to supply Europe with power from northern Africa.

The existence of those projects seems to indicate that the long-distance power connections of the future will be subsea or will be buried. Would it be a possible advantage for Scotland for the line to involve a relatively short experimental stretch of undergrounding in the Stirling area? I could go on ad infinitum about the iconic nature of that historic landscape.

Might it be to our advantage to win Scottish and Southern Energy over to the construction of a short underground section? We could experiment with that and put ourselves in a position of being experienced when it comes to contracts for projects such as those that will be carried out on an enormous scale in the North Sea and the Mediterranean. The same type of technology will be required to take a power scheme through southern Italy, for example, and it has been pointed out to me that the Beaulieu to Denny line might be the last major overland power scheme.

**Jim Mather:** I hear what you say. Perhaps you can put to Scottish Power—the company that is involved in the Stirling area—a rationalisation that is based on experimenting and building expertise that it might be able to utilise and sell elsewhere. In this instance, the balance of opinion and evidence has taken us to where we are.

There is now a convergence of opinion on the right approach, which is backed by the committee, the Parliament and many voices out there. The objective now is to see what we can do to make that approach better over time. If, as a by-product, we build further expertise in Scotland that can be sold further of Scotland, I will be the first to welcome that.

**The Convener:** I conclude with a couple of questions to clarify matters for the record. From what Mr Macleod and Mr Imrie said, you cannot rule out that there might be requirements for further statutory consents for the areas of mitigation. For example, environmental impact assessments might be required if there is rerouting, re-siting or undergrounding, and new planning permission or further public local inquiries might be required. The other thing would be Ofgem consent in relation to the costs of the project. Could all those things happen?

**Jim Mather:** Those possibilities exist, yes.

**The Convener:** The reporters' conclusions and recommendation are fairly clear in relation to the Stirlingshire area. Paragraph 1.6.5 of volume 6 states:

"Overall, we conclude that other than the small section close to Glenside the proposed route within Stirling and Falkirk Council areas would not have an unacceptable impact on landscape character or visual amenity."

Why did you reject that conclusion?

**Jim Mather:** Did you say "not"?

**The Convener:** Paragraph 1.6.5 of volume 6 of the reporters' report states:

"Overall, we conclude that other than the small section close to Glenside the proposed route within Stirling and Falkirk Council areas would not have an unacceptable impact on landscape character or visual amenity."

You intend to have a mitigation scheme in that area. Why did you reject the reporters' conclusion on that aspect?

**Jim Mather:** We were looking at the overall impact. We recognise the sensitivities in the Stirling context and the importance of the area, which was mentioned in a previous question. That is why we supported the rationalisation scheme and put in place the additional mitigation requirement in Stirling.

**The Convener:** Presumably the local inquiry considered those issues and the reporters came up with the conclusion that mitigation was not required for the area other than in relation to Glenside.

**Jim Mather:** Let me bring in others to give you some clarification of that.

**Colin Imrie:** On the Stirling area, the reporters' recommendation and finding that, overall, the impact would not be adverse was accepted. The reason why the minister added the extra conditions and changed the condition that was proposed in relation to Glenside into a mitigation scheme is because of the adverse impact in a number of specific areas in the Glenside area and, for example, when the line crosses the scarp in the Ochils. There is adverse impact in particular areas.

**The Convener:** Those points were considered by the reporters and rejected.

Finally, I ask you to confirm whether the decision was taken entirely by yourself, minister. Were any other ministers involved in discussions before the decision was taken?

**Jim Mather:** Absolutely not. I was in glorious isolation through the period.

**The Convener:** That concludes item 1. Thank you, minister. I realise that the session was longer than we envisaged, but we had a lot of questions.

I suspend the meeting briefly while there is a change of personnel for the next two items. We will have to deal with them quickly because we are running behind schedule.

10:58

*Meeting suspended.*

10:59

*On resuming—*

## Energy Bill

**The Convener:** The next four items concern legislative consent memorandums. The first two are on the legislative consent memorandum on the United Kingdom Energy Bill. I invite the minister to make some opening remarks to explain what changes are proposed. If you could keep your remarks as brief as possible, minister, that would be helpful.

**Jim Mather:** I am grateful for the opportunity to address the committee on the memorandum that Mr Swinney, the Cabinet Secretary for Finance and Sustainable Growth, lodged under rule 9B.3.1(a) of the Parliament's standing orders. The UK Energy Bill was introduced in the House of Commons on 19 November, and the LCM was lodged in the Scottish Parliament on 2 December 2009.

Alongside the accelerated expansion of renewables, our future electricity mix must feature clean fossil fuel technologies such as carbon capture and storage. Scotland has the potential to become an international leader in the development of CCS technologies, which will make a significant contribution to both economic growth and the reduction of carbon emissions. The Energy Bill will enable the UK Government to raise a UK-wide levy on electricity suppliers, the funds from which will be used to support four commercial-scale demonstration projects for carbon capture and storage across the UK, including the winner of the UK CCS competition. The raising of the levy is a reserved matter, but aspects of the disbursement of the funds throughout the UK touch on devolved matters that relate to environmental issues, so an LCM is required.

The bill focuses on introducing the levy and developing a mechanism for an assistance scheme to disburse the levy funds. Secondary legislation, including criteria for how projects will be assessed and moneys allocated, will be decided on in the second half of 2010, following consultation. For CCS projects that are situated in Scotland, the bill includes an explicit reference requiring the secretary of state to consult the Scottish ministers before making, amending or revoking an assistance scheme and before making regulations on assistance schemes.

Since the LCM was lodged, there have been a number of updates on the position of the bill, which I wish briefly to clarify. I have also written to the convener on these points.

In relation to paragraph 6 of the LCM, I clarify that the secretary of state will obtain the Scottish ministers' consent before making regulations under part 1 of the bill that amend or contain provision extending to Scotland that would be within the legislative competence of the Scottish Parliament. That is similar to the approach under the Energy Act 2008. In relation to paragraph 7, following further discussions with officials, I clarify that moneys are likely to be allocated on an individual project basis rather than on an allocation basis. Given the considerable cost of demonstration projects, an allocation approach would be unlikely to meet the cost of funding individual projects.

We believe that the LCM represents the best opportunity for Scotland to secure funding towards the demonstration projects. My officials are in negotiation with UK officials to ensure that Scotland has the maximum possible opportunity to gain the money. There is a positive relationship between the two Governments on the matter, and Scotland's competitive advantage is well understood. We are clear in our view that Scotland has the potential to win a good number of the demonstration projects, given the good credentials that are held by Longannet and the imminent submission of a consent application for a new coal plant with CCS at Hunterston.

As Minister for Enterprise, Energy and Tourism, I invite the Parliament to agree that the relevant provisions in the UK Energy Bill that relate to the disbursement of funds for any future carbon capture and storage demonstration projects will be the subject of assistance schemes as they relate to environmental issues and that, so far as these matters fall within the legislative competence of the Scottish ministers, they should be considered by the UK Parliament. I invite the committee to support the legislative consent motion and I look forward to responding to members' questions.

**The Convener:** I ask members and the minister to keep questions and answers as brief as possible.

To clarify, is it your view that, if we do not agree to the LCM, the consequence might be that Scotland does not receive the allocation of funding for CCS projects?

**Jim Mather:** Yes.

**Stuart McMillan:** Has the Scottish Government been given a guarantee that the funds will be spent solely on CCS technologies or other energy matters, as opposed to the levy being a new tax that goes towards the massive UK debt burden once the cost of CCS technologies has been met?

**Jim Mather:** Our understanding is that the moneys are utterly ring fenced for use towards the CCS demonstration projects. Our view is that we

are in pole position as we have not only a good relationship with the Department of Energy and Climate Change on the matter but a project in Longannet that is in phenomenal shape to win the competition.

**Lewis Macdonald:** What income is expected to be generated by the levy?

**Jim Mather:** We are told that between £600 million and £800 million per annum will be raised, for a duration of 18 years. That is a substantial sum. The issue is of strategic importance for Scotland, given our credibility in CCS as a result of preparations in relation to Longannet and Scotland's good fortune in that our geology will enable us to play a key part in such a demonstration.

**Lewis Macdonald:** If one of the forthcoming demonstration projects is located in Scotland, is it your assessment that there will be a net benefit to Scotland and that expenditure in Scotland on the project will far outweigh the Barnett share of the levy that will be raised?

**Jim Mather:** It absolutely is—that is exactly the judgment that we have come to. Given the quality of the Longannet project, in particular, and the criteria that it meets, and given the prospect for other projects in Scotland, we envisage that we will benefit more from the project scheme than from any Barnett formula allocation.

**Lewis Macdonald:** You talked about an 18-year period. The Scottish Government and UK Government's position is to require the retrofitting of existing plant for carbon capture by 2025 if such an approach has been demonstrated by 2018 to be technically and financially viable. If the approach's viability is not proven, what will happen to the levy-raising power after 2018?

**Jim Mather:** I am not sure that I can give you a clear answer on that. You are right to consider that possibility, in the spectrum of possible outcomes, but activity on CCS throughout the globe—at home and in Norway, Germany, Japan and the States, for example—is such that the balance of probability is that the technology will succeed and that Scotland will play a key part.

**Lewis Macdonald:** There must be a plan B, though.

**Jim Mather:** There has to be a plan B. I invite David Rennie to say a little about that.

**David Rennie (Scottish Government Business, Enterprise and Energy Directorate):** For the record, I am head of the fossil fuels and CCS development team in the Scottish Government.

As part of the policy statement on new stations and retrofitting for CCS, the UK Government—with

which the Scottish Government is aligned on this point—has said that there will be a rolling review of CCS, with a view to taking a final decision on retrofitting by 2018. If CCS is not regarded as viable at that stage, for whatever reason, other options will be considered. I do not want to open up the discussion too widely, but I will say that there are options to do with emissions performance standard and other technologies. We understand that, at that stage, the levy will have been operational for a number of years. Money will have been spent to get projects to a certain point, and residual money might be available to be used for other types of technology.

**Lewis Macdonald:** In other words, although the minister has said that money will be ring fenced—I accept his point—the potential is there for the money to be reallocated to other energy projects.

**David Rennie:** The potential is there, but I do not think that that has been spelled out at this early stage. It is certainly a possibility.

**The Convener:** If there are no more questions, we move on to formal consideration of the legislative consent memorandum. Is the committee content to recommend to the Parliament that it agree to allow the UK Parliament to legislate on our behalf, as set out in the legislative consent motion?

**Members indicated agreement.**

**The Convener:** Are members also content to leave it to me and the clerk to draft a short, factual report on the matter?

**Members indicated agreement.**

11:09

*Meeting suspended.*

11:10

*On resuming—*

## Constitutional Reform and Governance Bill

**The Convener:** The next item concerns a legislative consent memorandum on the UK Constitutional Reform and Governance Bill. I invite the minister to make a brief opening statement.

**Jim Mather:** The UK Constitutional Reform and Governance Bill was originally laid before Parliament in the 2008-09 session and progressed as far as the committee of the whole House stage, when two amendments were agreed that are relevant to the LCM. The bill was carried forward into the current session and re-presented to Parliament on 19 November 2009, when the first and second reading stages were taken without debate. The next committee stage is scheduled for 19 January.

The bill runs to 57 clauses and nine schedules. Its purpose is to take forward the UK Government's programme of constitutional reform over a wide range of provisions relating to: the management of the civil service; the parliamentary process for the ratification of treaties; further reform of the House of Lords; protests around Parliament; time limits for human rights actions against devolved Administrations; the independence of the judiciary, the Comptroller and Auditor General and the National Audit Office; and the transparency of financial reporting to Parliament.

Of those provisions, it is proposed that only two should extend to Scotland. By virtue of the Sewel convention, they are subject to the consent of the Scottish Parliament, and it is those two matters that I am here to give evidence on today. The provisions are contained in part 1, on the civil service, and part 5, on human rights claims against devolved Administrations.

The civil service chapter covers three main areas: the management of the civil service; arrangements for appointment of special advisers; and the creation of non-departmental public body status for the Civil Service Commission. The provisions in the chapter are designed to place existing administrative arrangements for the management of the civil service on a statutory footing. They do not make any substantial change to current practice. They are not contentious, but confer the following new functions and duties on the Scottish ministers.

First, there will be a duty on the First Minister to lay the code of conduct for civil servants before the Scottish Parliament—officials are currently in

discussions about the detail of whether the Scottish code should apply to core Scottish Government staff or to civil servants in the wider Scottish Administration. Secondly, there will be a duty on the First Minister to lay the code of conduct for special advisers serving the Scottish Government before the Scottish Parliament—that was agreed by amendment on 4 November, after the UK Government conceded to our argument that that provision should be included in the bill. Thirdly, there will be a requirement that the First Minister personally selects for appointment the people to be appointed as special advisers.

Fourthly, there will be a duty on the First Minister to prepare an annual report on the number and costs of special advisers, and to lay that report before the Scottish Parliament. Fifthly, there will be a duty on the Scottish ministers to provide the Civil Service Commission with any information that it reasonably requires, in the event of an agreement between the Prime Minister and the Civil Service Commission that the commission should carry out additional functions. Sixthly, there will be a duty on the First Minister to lay before the Scottish Parliament a copy of the annual report of the Civil Service Commission.

I will now turn to the second of the two matters on which I wish to give evidence, which relates to time limits for human rights actions against devolved Administrations. The amended part 5 of the bill introduces a one-year time limit for human rights actions against the devolved Administrations in Wales and Northern Ireland and, in effect, continues the one-year time limit for human rights actions against the devolved Administration in Scotland. It also removes the additional competence that was granted to the Scottish Parliament to enable the passage of the Convention Rights Proceedings (Amendment) (Scotland) Act 2009, and it will repeal that act.

By making provision in respect of the currently devolved matter of time limits for convention rights proceedings and removing that matter from this Parliament's legislative competence, part 5 triggers the requirement for an LCM. At present, the draft motion does not reflect the basis on which part 5 triggers the requirement for an LCM, but I assure members that I will correct its terms to ensure that it does.

By way of background, I should say that the provision arises from the discussions that concluded last year between the Scottish Government and the UK Government to resolve the anomaly that was exposed by the House of Lords judgment in the *Somerville* case. In that case, it was held that human rights cases that were brought against the Scottish Administration under the Scotland Act 1998 were not subject to the same one-year time limit as cases that were

brought under the Human Rights Act 1998. The initial response to that anomaly was the introduction of a bill in this Parliament to create a one-year time limit for human rights cases that were brought under the 1998 act. On 23 July last year, that bill received royal assent as the Convention Rights Proceedings (Amendment) (Scotland) Act 2009.

11:15

During the discussions about the *Somerville* case, the UK Government said that it intended to replace our legislation with provisions that would extend similar protection to the devolved Administrations in Wales and Northern Ireland while maintaining the protection for Scotland. It has used the Constitutional Reform and Governance Bill for that very purpose. Given that the bill will provide the new basis for the one-year time limit for human rights claims against the Scottish Administration, it follows that both the Convention Rights Proceedings (Amendment) (Scotland) Act 2009 and the order conferring competence on the Parliament to pass that act are redundant and so will be repealed. However, the substantive position in Scotland will remain unchanged.

The use of a legislative consent motion to extend to Scotland the clauses of the UK Constitutional Reform and Governance Bill makes good sense. Part 1 of the bill will put the current administrative arrangements for the management of the civil service on to a statutory basis. Part 5 will continue in force the one-year time limit for human rights actions against the Scottish ministers and put that protection on to the same statutory footing as that which will apply to the devolved Administrations in Northern Ireland and Wales.

I invite the committee to support the legislative consent motion. I am happy to provide further clarification of any points.

**The Convener:** Does the bill or the legislative consent memorandum have any implications for the economy, energy or tourism?

**Jim Mather:** I think that it has very minimal implications. I struggle to find an example.

**Ms Alexander:** I share the puzzlement of the convener and minister about why this LCM is before us.

I should declare an interest as a former special adviser to Donald Dewar, as I wish to ask a question on special advisers. Buried in the small print is the fact that one consequence of agreeing to the draft legislative consent motion is that we will completely remove the current statutory limit of 12 special advisers serving the Scottish

Government. In principle, if the motion is passed, the First Minister will be empowered to appoint as many special advisers as he or she might wish. Will you clarify that that is a consequence of the provisions before us today?

**Jim Mather:** You will see from the nodding heads around me that that is indeed the case.

**Ms Alexander:** Do you regard it as uncontroversial to move from a limit of 12 to no limit of any kind and no parliamentary oversight?

**Jim Mather:** I reserve my opinion on that at the moment.

**Ms Alexander:** I just note that you describe the provisions as non-contentious and non-controversial in the document. Sadly perhaps, I am not sure that that is how all Scottish civic public life, particularly the fourth estate, would see it.

Given your desire for the changes to be non-controversial, did the Government consider retaining a limit on the number of special advisers or did it consider whether the Scottish Parliament might appropriately have oversight of that? The provisions explicitly do not give the Parliament any role in limiting those numbers.

**Jim Mather:** From the briefing that I have had today, I am not sure that that debate has taken place.

**Margret Coutts (Scottish Government Human Resources and Corporate Services Directorate):** Perhaps I could offer clarification—please excuse me if my voice goes.

In the new provisions there is a duty on the First Minister to prepare an annual report on the number and cost of special advisers and to lay that report before the Scottish Parliament. That is seen as one means by which the Scottish Parliament will be able to make its comments on the number of special advisers. As you know, at the moment that is done through an inspired parliamentary question. The bill will put it on a more statutory footing.

**Ms Alexander:** It is not really putting it on a statutory footing simply to require that a report is laid if we have no power of any kind to influence the number involved. The provisions do not allow for the Parliament to have any formal role in deciding what the appropriate number might be. Was that matter given consideration in the drafting of the provisions?

**Margret Coutts:** Not in those terms.

**Ms Alexander:** How many special advisers are there currently?

**Margret Coutts:** There are currently 10 special advisers.

**Ms Alexander:** The other way in which the provision differs from that in the UK is that in the UK special advisers are ministerial appointments but in Scotland every one is appointed by the First Minister. That has led to concerns that those advisers are overly concentrated in the media arena and perhaps less in the policy arena. That might change if the advisers were aligned with the work of individual ministers. Why, when moving responsibility to Scotland, was it decided that special advisers should remain personal appointments of the First Minister? Why have we not moved to the UK Government system, in which they are ministerial appointments?

**Jim Mather:** That is an element of the LCM. There is a requirement that the First Minister personally selects for appointment those to be appointed as special advisers. I do not know whether that is derivative of practice in Westminster.

**Ms Alexander:** It definitively is not. Here, special advisers are appointments of the First Minister, whereas in the UK Government they are appointments of ministers and their tenure terminates when that ministerial tenure terminates. As I say, the fact that in Scotland they are appointed exclusively by the First Minister has led to concerns about their being overly concentrated in one area of activity. Why do we not follow the UK model?

**Jim Mather:** I seek clarification on that from my officials.

**Margret Coutts:** The intention behind the CRAG bill is simply to move current administrative arrangements on to a statutory footing. It is not intended to go further than that.

**Ms Alexander:** But it does not put the arrangements on a statutory footing with respect to the limit on special advisers. It moves some aspects on to a statutory footing, but not others.

**The Convener:** If members have more questions, I ask them to keep them brief, as we are short of time for the next agenda item and I do not want a huge debate. If members are not content with the legislative consent motion, they can ask for it to be debated in Parliament.

**Lewis Macdonald:** Further to Wendy Alexander's questions, is the minister aware of any intention to appoint an increased number of special advisers when the bill is passed?

**Jim Mather:** I am aware of no intention to do that.

**Stuart McMillan:** Has the procedure differed under the present Administration compared with previous Administrations? Has it always been the First Minister who has appointed special advisers?

**Jim Mather:** That is my understanding, although I suspect that some committee members will be more aware of that than I am. I see nodding heads, so I suppose that the answer is yes.

**The Convener:** As there are no more questions, we will consider our approach to the LCM but, before that, I want to say that I find it strange that the motion is before us, as it does not seem to fall within the committee's subject matter. Given that the bill deals with matters such as codes of conduct for civil servants and the appointment of special advisers, it might have been more appropriate for the LCM to go to the Standards, Procedures and Public Appointments Committee and, in relation to the human rights measures, it would have been more appropriate for the Justice Committee. I have no idea why the issue has come to this committee, or why we did not receive the LCM on the Financial Services Bill, which went to the Finance Committee and will come before the Parliament today but which falls within our remit. However, that is just a comment.

Are members content that we recommend to Parliament that it agrees to allow the UK Parliament to legislate on our behalf as set out in the legislative consent motion, and to leave it to me and the clerk to draft a report on that?

**Members** *indicated agreement.*

**The Convener:** I thank the minister for what was a long session.

I suspend the meeting while we change witnesses. It must be a brief suspension, as the witness for the next session has limited time and we need to get started quickly.

11:23

*Meeting suspended.*

11:25

*On resuming—*

## Financial Services Inquiry

**The Convener:** Item 6 is the banking and financial services inquiry. I apologise to Mr Nish for the delay in reaching the item. I am aware that he must leave by 12 noon, so I ask members to ask particularly focused questions, to allow us to get through as much as we can.

We will hear evidence today from parts of the financial services industry in Scotland other than the banking sector. I am pleased to welcome David Nish, who is Standard Life's newly appointed group chief executive. I ask him to give a brief introduction, after which we will ask questions.

**David Nish (Standard Life):** Thank you for the opportunity to speak to the committee. I value the time.

Standard Life has a long association with Scotland—we have worked in the country since 1825. Standard Life is one of the country's foremost financial services companies and foremost employers.

I will focus on four topics: a reflection on how Standard Life performed during the crisis and particularly on the resilience that we ended up displaying; our drive to put customers truly at the heart of everything that we do—we are very much a customer-orientated business; our needs as a business for talent and high-quality infrastructure; and the importance of getting regulatory reform right.

Before going into that, I will comment on Standard Life as a business—our areas of activity and geographical reach. Our business was founded in Edinburgh in 1825, as I said. Today, we provide pensions, life assurance, investment management and health care insurance to just over 6.5 million customers worldwide. We have some £140 billion of assets under management. We have about 10,000 employees throughout the UK, North America, Europe, India and China. Scotland remains the heart of the business. We employ just over 6,000 of our staff in Scotland and the vast majority are in Edinburgh.

After 80 years as a mutual company, the Standard Life Assurance Company demutualised in 2006 and Standard Life plc was born and was listed on the stock exchange. We now have 1.5 million individual shareholders in 50 countries. A unique point of our structure is that we have retained a large proportion of our policyholders as shareholders.



I move on to my four topics. I am—obviously—pleased to say that Standard Life has weathered the crisis well. I attribute that to the disciplined approach that we took to financial and risk management. That enabled us to drive a strong capital base, and it positions us well for the economic recovery that it is hoped will come through.

Having said that, I must acknowledge that we had a crisis in 2003. The strategic review that was started in 2004 played a large part in our significantly bolstering our capital and risk management. As a result of that review, we changed our business model fundamentally. We refer to a capital-light approach and try to remove unrewarded risk in the business that we undertake.

A further example of that is the decision that we took late in 2009 to dispose of our banking business, which reflected our view that the investment level that would be needed to keep up the intensification of competition in the UK mortgage market was not ultimately compatible with the focus on being a long-term savings and investment business. *[Interruption.]* We are well placed for future growth in those areas, and our focus is now very much on delivering secure retirements for our customers, which fulfils a key and growing social need, as the committee will appreciate.

11:30

How do we put customers at the heart of everything that we do? For me, that means creating an organisation that has a deep appreciation of customer attitudes and needs at every level and is obsessive about ensuring that the customer's voice resonates throughout the business. We must ensure that we are easy and simple to deal with, because financial services products are not noted for their transparency. We must also ensure that all employees understand and embrace those principles. We see ourselves as a people business that deals with customers who are individuals and with their individual needs. That is all rooted in understanding that long-term commercial success flows directly from delivering superior value and service to our customers. We talk about it as a truly beneficial relationship with our customers.

Being a customer-centric business is about more than being pleasant and engaging; it is an organisational philosophy and a value system, not just a set of activities. I will consider one of the issues that we had last year to highlight how we react. Last year, we let down some of our customers in our pension sterling fund. That was down to something to do with our literature, which was found to be wanting. It is important that, when

mistakes occur, we recognise our responsibility, are open about our mistakes, put things right and improve our processes. We did that by ensuring that the affected customers were properly recompensed and setting in train internal changes to improve how we describe our products to customers. We also worked openly with our regulators as soon as we identified the problem, and we understood the consequences of the failure as a result. An ability to work transparently with customers and regulators must be at the heart of being a customer-centric business.

Our future success as a business requires quality infrastructure and a strong supply of talent. Standard Life is an international business. We have deep local roots but need to have international reach, so transportation links within Scotland and to the main financial centres around the globe are important to us. However, the pool of talent is much more important. The universities sector has a key contribution to make to that, as we have a significant graduate intake, but we also need to invest in the development of our existing talent. Consequently, talent management is an important element of my agenda. We also have a responsibility to highlight the positive contribution that the long-term savings sector makes to society so that talented individuals are encouraged into financial services—the sector is often viewed as an unattractive area in which to work.

I emphasise the importance of getting regulatory reform right. The financial crisis has revealed deep shortcomings in regulation, and the authorities are right to strengthen regulation comprehensively. However, we need to avoid a one-size-fits-all approach that weighs heavily on all financial services. *[Interruption.]* We need to be smart and pragmatic in redesigning regulation, which requires a strong and well-informed dialogue between firms and policyholders. I will ensure that Standard Life continues to make a strong contribution to that dialogue.

Those are my opening comments.

**The Convener:** Thank you, David.

I remind all members of the public and everyone round the table to ensure that they switch off their mobile phones.

I declare an interest in that I have an endowment policy with Standard Life, as a result of which I am also a very small shareholder in the company.

The focus of the financial crisis has been the banking sector. Two of the major banks that suffered were Scotland-based banks: the Royal Bank of Scotland and HBOS. Has that had any impact on Scotland's reputation as a financial services centre?

**David Nish:** I will try to stand back from the emotional reaction to the crisis and think substantively about what the financial services industry in Scotland is. The emotive term “Scottish banks” can make it seem as if there is a strong attachment to the industry, and we need to be careful about being drawn into that.

In financial services in Scotland, we are exceedingly strong in insurance and investment management. Then there are areas such as pension provision, fund management support and stockbroking—the whole back-office sector. Those sectors have managed to weather the crisis relatively well. In the insurance sector, which takes us back to my particular business, it is obvious that we were affected. Our customers were affected and, more importantly, our counterparties were affected—we were companies that traded with the banking sector and we were also investors in it. However, we should not let ourselves be drawn into thinking that “the banks” means the same as Scottish financial services.

Financial services go beyond that. For example, we have good, strong companies in the insurance and investment management space, and there has been the potential to grow our business over the past couple of years. My investment company, Standard Life Investments, has grown, and the largest amount of new inflows of assets has been in the past 12 months. We now have third-party moneys as nearly 40 per cent of our business. That number started as zero, in effect, 10 years ago.

It all comes down to the quality of the propositions and the service that we offer. More importantly, it is about the people we have and retain. My worry about the impact on Scotland arises if an association is made with the ability to draw talent into what is a wider sector than just the banks.

**The Convener:** Are there any actions that the Scottish Government or its agencies, or indeed the Scottish Parliament, should be taking to assist in developing the financial sector?

**David Nish:** The situation in the past 12 to 18 months has been one of the most complex that most people have had to deal with—I am thinking as both a participant and an observer—and the consequences have been catastrophic in some areas. The agenda is complex, with a complex set of players involved. There must therefore be clear and open dialogue on the issues so that we understand the lessons to be learned. It is also a matter of defining what the Scottish financial services space is, so that the committee’s proposals, for example, relate to it. The inquiry could become too focused, or solely focused, on a banking analysis whereas, ultimately, what we are talking about is the provision of services to

customers in the form of savings and loans and how the infrastructure behind that can best be supported.

The core of the matter is that we are in a people business. That applies at the front end, at the customer interface, but also at the back end, in shops where there are highly intelligent people with heavily quantitative skills working out the various propositions. There needs to be encouragement for the skills, techniques and talents that our businesses need.

We must ensure that our environment remains competitive. The whole financial services sector cannot be boiled down to an individual country. We are dealing with the free flow of capital. We have to ensure that regulation, in particular, achieves the right balance on the European and global scenes. The products that we manufacture mostly have the word “global” appearing in them—a global equity fund or a global bond fund, for example. Individual investors are looking for diversification. That is the case through a large proportion of segments, not just at a high-net-worth level. We therefore need to be able to invest overseas and to be seen as credible investors there.

**Rob Gibson:** You have emphasised the strong roots of Standard Life, with its large number of workers. Has the attitude towards being a Scottish company changed since demutualisation? Do you share the commitment that Sir Sandy Crombie made to remaining headquartered in Scotland?

**David Nish:** Very much. Any decision to change any of that deep-rooted Scottish base would have to be based on an overwhelming case. It would have to be either driven by a strategic change in the group or based on certain competitive circumstances that do not exist today. We are a Scotland-based company. We are proud of that and of what it gives us, especially the talent of our people and the skills that we are able to build. It still plays well when our business travels, as we have deep-rooted associations. Last year, our Canadian business celebrated 175 years of operating in Canada. We found that only the Hudson’s Bay Company is an older surviving organisation that is in the same form today. Last year, we directed many of our activities towards celebrating that and saying that we are proud both of where we come from and of being a Canada-based company.

How do we translate where we come from into a competitive advantage? The competitive advantage comes from our people. We must ensure that, when we travel, we get right the balance between being local and being international. Members must appreciate that we deal with individual customers in other countries, who have a competitive choice to make, as local

companies are also present there. There is a balance to be struck, but what we do is still founded on the quality of our people, which is built on the quality of education that they receive and so on.

**Rob Gibson:** Looking to the future of the Scottish base for financial enterprises of all sorts, I note that at one point you mentioned that it is important that we do not take a one-size-fits-all approach to regulation. There are several ways of looking at the matter. Are there any specific issues of concern of which we should be aware? Could Scottish companies be faced with a one-size-fits-all straitjacket?

**David Nish:** One of the most significant issues that we and the sector are working through at the moment is the concept of solvency II, which comes from European regulation and of which members may be aware. Fundamentally, it looks at how risk and capital in companies such as Standard Life are effectively managed. We have no difficulty with the intent of the legislation that is coming forward—we support it. However, there tends to be a reaction to crisis events—a pendulum swing. It appears that, in the regulation and consultation papers that are being developed, an extreme view is being taken on the amount of capital that is required and, therefore, the cost of doing business. A lot of lobbying is taking place from within the industry—Maggie Craig may touch on that when she gives evidence—but getting to a balanced position will be a pretty hard road, as there will naturally be an adverse swing in how people view the issue.

The impact of solvency II on Standard Life, as both an insurance business and a broader long-term savings business, could be disproportionate to the risks that we are taking, especially if you look at what we have done in the past two to three years. Statistics for the maintenance of our capital indicate that it did not change much during the crisis, because of the steps that we had taken to de-risk our business and to manage our exposures, but we will end up being penalised with the rest of the sector.

Another developing theme is the suggestion that what fits for the banks fits for the rest of the financial services sector, but the two face a quite different set of circumstances. Because of the scale at which the issue is being tackled—at European level—by the time that it percolates down to a large but relatively smaller player in the sector, it ends up having a disproportionate effect and could affect how we make strategic decisions.

11:45

**Rob Gibson:** Are there particular points that the Scottish Government and the committee should be

making about the process, in relation to a relatively large business that happens to operate in a sub-nation and might be comparable to businesses in other parts of Europe that require the same sort of differentiation rather than one-size-fits-all regulation?

**David Nish:** First, there is a need to strengthen regulation—I very much acknowledge that. Secondly, we need to be clear that different industries and industry models require to be treated relative to the risks that they bear. There must also be sensible implementation. The danger arises when people have a cliff-edge reaction and say, “Double everything!” We cannot double everything overnight. Markets do not have the capacity to do that.

It is about encouraging a balanced reaction, in which the needs of particular industries are acknowledged and regulators end up working more closely with the businesses, so that they understand them more intimately and can regulate more effectively, as opposed to what happens when there is regulation from a distance, which tends to be rules based—rules and formulae never take account of individual circumstances.

There are some specifics. For example, there is the liquidity premium—members might not want me to go into that topic—which has become a kind of tabloid news item, at least in the financial services arena. It is very much about how the measurement of risk is undertaken. The industry bodies and the Financial Services Authority are lobbying hard on our behalf in that regard. Further emphasis on the points in our written evidence might be needed.

**Rob Gibson:** I am conscious of the time; I will let other members have a go.

**Gavin Brown:** It is refreshing to hear evidence that is more positive than the evidence that we have heard from one or two of our other witnesses. I want to ask David Nish one or two questions about solvency II. Your additional written evidence was helpful. You said:

“Important decisions on the detailed implementation of Solvency II will be taken by the European Commission in the first half of 2010.”

The issue is therefore time critical. Further to Rob Gibson’s question, is there anything specific, purely in relation to solvency II, that you would like the committee and/or the Scottish Government to do now?

**David Nish:** In essence, I refer you to the items in the written evidence. The whole issue to do with liquidity premium is a technical subject. Because measurement is difficult, the natural thing to do is to go for a simplistic approach and say, “Make it bigger”—in terms of the consequences. Pressure is being applied, but reinforcement would be

helpful. I would be very happy for my team to work with the committee on how to phrase that, if that would help.

**Gavin Brown:** Are you currently getting enough help from the FSA and the Treasury in relation to lobbying on the issue?

**David Nish:** I appreciate the difficulties that those bodies have, which are a result of the breadth and depth of the regulation. For example, we are dealing with several hundred consultation papers, because a generic set of regulations is being cascaded down. Work with groups such as the Association of British Insurers, in its role of industry forum, has been important in consolidating and filtering individual company views to help the FSA and the Treasury to take forward the bigger points rather than issues that just end up favouring individual companies. We have worked quite successfully to do that.

In some areas, the tide is beginning to turn. We had to work quite hard to get some of the European countries and corporates to understand that solvency II would impact on them in the way that we were highlighting. If you read some of the commentary about that from the beginning of 2009, you would think that it was a UK problem only, but that was largely to do with how the situation was presented. We worked through the ABI, the FSA and the Government to ensure that it was perceived as a European issue, and progress is being made.

**Gavin Brown:** Do you see any individuals, groups or countries as the key obstacles to changing solvency II?

**David Nish:** Although there is a drive towards harmony in how capital markets work, we have to recognise that each country starts with a different economic base. It is not so much that I see any countries as obstacles; it is more that they are interested in a different application of solvency II. Bodies such as the ABI and the FSA have been trying to ensure that items do not become overly negative for particular countries. As I said, there was concern in the industry last year that the situation was being painted as a UK problem, particularly in the life insurance sector, but we have managed to balance that now. For example, France has specific issues that Germany does not. There is now greater recognition that a balanced outcome is required, rather than some of the theoretical work that was put in place.

**The Convener:** Before I let Wendy Alexander in, I remind members that we have only about 10 minutes left, so questions will have to be brief.

**Ms Alexander:** I am mindful of time constraints. I invite David Nish's views on a different issue: corporate governance and the Walker review. What are your thoughts on the review's impact on

Standard Life's governance, but perhaps more particularly on your increasing role as an institutional investor?

**David Nish:** As I said earlier, there has to be consequence and change following the past couple of years. I reflect back on some of the experiences that I had in other industries and sectors—I went through the Californian power crisis and the telecoms crisis and there was reaction to both.

Walker deals with risk governance, which is probably the most fundamental area. That has always been in our background. During my days at Scottish Power, we pushed risk to the top of the agenda. If you do not understand risk, you do not understand reward. It is easy to work out that you think you will make a profit, but what will be the ultimate costs associated with that? The emphasis on forming a new risk committee, as distinct from an audit committee, to allow a more professional approach to be taken to many aspects of running a business—not just in the financial services industry but more broadly—is important and we are taking that on board. Although we believe that we were making progress, having such a committee will give us more impetus.

It is important that the risk agenda picks up on the appetite for risk, which boards often have difficulty dealing with. It is easy to think of all the positive aspects of business decisions, but it is difficult to challenge yourself to think of the negative aspects—the cost of failure and the willingness to fail. One thing that we should not do with governance is drive out the willingness to take risk, because without risk there is no reward. However, you have to have a clear understanding of the risk that you run and you need the capacity in your business to absorb it. That means either that you have available the capital liquidity to use or you have the action plans in place—the mitigants—either through hedging or through having the resources to be able to do it. From that point of view, the Walker report is important to overall governance, which is the area in which I would like to see most improvement in corporate Britain.

As an institutional investor, we have an opportunity to exert influence through direct discussions with senior executives. I think that institutional investors will have a bigger hand in questioning in this area and trying to understand. Obviously, as an institutional investor, we rely in the main on externally available information; we get only a limited amount of information from one-to-one discussions with executive directors. I should not overstate that as a source that is better than published information at letting us know what is going on.

The issue is then about how to interpret information and whether what companies report really gives a clear insight into both the risks that they are running and their exposure to risk, including the speed at which that exposure could crystallise. Executives often have difficulty in accepting not only the fact that bad things happen but the speed at which they can happen. We need only think back to the dark days when Lehman Brothers went under; people had only minutes to decide what to do. Prior to the collapse, we had been very proactive in removing a lot of our exposure to the banking sector, and Lehman Brothers in particular, as a result of which we had no real financial loss. The fundamental point is being willing not only to believe that something bad will happen but to act quickly. It is a people thing.

**Ms Alexander:** I am mindful of time and will not pursue the matter further.

When the chairman of the Treasury Select Committee came before the committee last week, he described institutional investors as “supine and ineffective”. Clearly, the challenge in risk management is to think through the respective responsibilities of senior management, boards, regulators and institutional investors. It would be helpful to have Standard Life’s view in writing on that whole terrain. That would help our further consideration of the matter.

**David Nish:** I will take that on. It is important.

**Ms Alexander:** Thank you.

**Lewis Macdonald:** The building societies and others have told us their concerns about the financial services compensation scheme. They said that it does not operate on a fair basis and that societies are penalised for good management. Do you have a view on that from Standard Life’s perspective?

**David Nish:** I will get a more detailed view to the committee. The key question is whether the scheme was set up with this scale of crisis in mind. We all have to deal with that question, including at the individual level. Structures were put in place to deal with a small-scale event, but multiple companies and large numbers of customers got into distress. How can we work our way out of that? I will reflect on the matter and give a more detailed response in writing to the committee.

**Lewis Macdonald:** That would be helpful.

**Stuart McMillan:** I have a point of clarification on the concern that Standard Life raises in its submission about insurers being forced to hold assets that are realisable today to meet future losses. How does that affect individuals who have

an asbestos-related condition? I am thinking of the Court of Session’s decision last week.

**David Nish:** I would need to take that one away and come back with a specific answer. We are not that type of insurer in terms of the risks that we end up covering. I may be able to help the committee on where to direct the question to get a written response. The Association of British Insurers covers a broader insurance base, so Maggie Craig may be able to help the committee on the issue.

**The Convener:** There may be questions that we do not get to because of time constraints, which are entirely our fault, so perhaps we could write to you with them and get your response in writing.

**David Nish:** Yes.

**Christopher Harvie:** In earlier evidence from people who seek investment to expand Scottish industry, we heard about big projects in renewable energy and so on and about the more sophisticated use of financial products such as mortgages to upgrade the thermal efficiency of houses, about which we have been very remiss. In what way can an organisation such as yours relate positively to industrial innovation? For instance, how did your company’s circumspect attitude differ from the more speculative attitude of, let us say, the Royal Bank of Scotland?

12:00

**David Nish:** I will answer your last question first and work backwards. In many ways we are a fundamentally different type of investing business, because, in the main, when an individual’s cash comes to us we are investing in an individual fund or set of funds, often directed by a third-party adviser. In many ways, we are much more into the background management of the moneys, although we give advice in some areas of our business. From that point of view, our investing activities are much more aligned to an individual’s objectives than to some of the activities that a large-scale commercial bank would get into.

In respect of particular project investment, we tend to invest in investors who invest in projects. For example, we have a reasonably large-scale private equity business, which invests in private equity funders. We see that area of investment management as attractive to consumers buying long-term investment products because it gives good returns over a long period of time. It is therefore an area that we support and put a lot of activity towards, but we tend to be the secondary investor rather than the primary investor.

**Marilyn Livingstone:** I will ask brief questions on two issues—perhaps you could follow them up in writing. First, what impact has the financial crisis

had on customer behaviour? Have you seen any significant changes? Secondly, is Standard Life considering restructuring or making job cuts, particularly in Scotland?

**David Nish:** There is no doubt that, during the early part of last year, and probably the last quarter of 2008, customers became very scared and worried about investing activity. They were therefore always trying to seek the lowest-risk asset classes. As you would expect—obviously, the fact that markets in effect fell through reflects a shortage of money going into markets—customers were more interested in cash-related products. They were deferring making investments in pension schemes and so on and were tending to hold on to funds. Over the past six months, that has begun to turn. Consumers tend to lag behind what is happening in the underlying economy; it tends to be the case that they pick up later in the cycle. Over the past three to six months, flows of moneys coming from consumers and mutual funds have picked up.

Last year, there were quite large-scale changes to pensions in respect of tax deductions for contributions, which undoubtedly created a lot of confusion in the minds of consumers, because it became exceedingly complex to work out at what level to invest. In many ways, the pension promise had been tax deduction in, taxable income out, but the changes last year began fundamentally to undermine that pension contract with individuals, and that, too, stopped people investing. We are now beginning to see investment pick up. We had a lot of good activity coming through in the last quarter of 2009. In our quarterly conference call, I said that we were encouraged but cautious. The caution comes from the economic environment, as we will still experience individual shocks. There are obviously concerns about, for example, the sovereign debt rating of the UK. A lot of that will be deferred until after the election, when people understand what financial package the next Government will bring forward.

You asked about restructuring. I am looking to a growth agenda for Standard Life. One of the advantages of having an internal successor is continuity of strategy, and I have been closely associated with the build of strategy over the past two to three years. We will continue to transform ourselves because the world is becoming much more competitive. We hope to do that by growing the scale and breadth of our business while deploying much more efficient technology and platforms.

Although we talk about Standard Life being an investment business and a life business, we are a customer business and a technology business at our heart. It is all about providing the best service and best proposition to our customers and

deploying that by using thoughtful and wide-ranging technology. Therefore, we have a heavy investment programme this year—probably the biggest in the company's past five to 10 years. That has been kicked off and we are recruiting at the moment to invest within it.

I look forward to a bright future for Standard Life; there is a lot that we can do to grow our business effectively.

**The Convener:** We have already overrun your time, but I will ask another question. Is that growth likely to be organic through growing your existing business or are you considering options for takeovers and acquisitions?

**David Nish:** It will primarily be driven by organic growth, but we will use inorganic to accelerate organic growth. For example, we bought a highly successful small Scottish company, Vebnet, at the tail end of 2008. It is the market leader in flexible benefits, not only in the United Kingdom. It is a small company—it cost us about £25 million—but it has global brand names in its client list and it is a very exciting opportunity. That is a skills set and proposition that we did not have, but we acquired it.

Our strategy is organic and is driven by the customers. If we need to fill in an asset class, skill, talent or operation, we would consider acquiring it, but it would be nothing that I would paint as large scale.

**The Convener:** Are you expanding your international growth as well? We may ask you back for a future inquiry on that question.

**David Nish:** We have some interesting opportunities, particularly in India and China. I am flying out to China next week, and we are working with the Bank of China on a potential, very large-scale, domestic insurance joint venture. In India, the scale of the businesses is quite mind blowing. We employ something like 200,000 agents there and have a plan that says that we will employ millions of people over the next five to 10 years. It is an area of business that is growing rapidly and we have staff seconded out there. We want to give our staff international experience because that is the way to bring knowledge back and ensure that our sector stays at the leading edge. That is vital. We take talent development very seriously.

**The Convener:** Thank you very much for your time.

**David Nish:** I apologise that I have to cut and run.

**The Convener:** We apologise for overrunning on earlier business. If there are other questions that we have not reached, we will write to you on them. Please also let the committee know how it

can assist in relation to the solvency II issues. We would be happy to try to help on that.

12:08

*Meeting suspended.*

12:12

*On resuming—*

**The Convener:** We resume the meeting with our final witness for today: I am pleased to welcome Maggie Craig, who is the acting director general of the Association of British Insurers, to talk about the insurance sector, which is an important part of the Scottish financial sector.

I apologise for keeping you waiting for so long; we have had an interesting morning and I am sure that we have another interesting session ahead of us. I ask you to give us some opening remarks.

**Maggie Craig (Association of British Insurers):** Thank you, convener and committee members, for the opportunity to appear in front of you.

Standard Life is a big member of the ABI and I endorse everything that David Nish said. He gave a context from his business; I hope that I will be able to give you a wider context for the industry as a whole. I will touch on three themes: first, I will give a flavour of the industry's reputation and what it is about; secondly, I will touch on a theme that David Nish introduced, which is that insurance is not banking—the differences in the business model between insurance and banking; last, I will talk a little bit about the wider financial services sector in the UK and in Scotland. I am happy to expand on any of those themes as we go through.

It would be stupid to deny that the global reputation of financial services—particularly the reputation of the banks—has suffered severely, but the surveys and other work that we have done with our members, many of whom operate globally, provide no evidence to suggest that Scotland's reputation has been disproportionately damaged. That may be small comfort, but it is a point worth making.

David Nish introduced the point, which I support, that the financial services industry in the UK and Scotland is far bigger than the banks. About a third of financial services jobs in the UK are in the wider insurance industry, so it is not just about banking. Insurance covers a number of areas, such as corporate customers, individual customers, general insurance, life insurance, protection, pensions, savings and asset management. It is a broad and deep industry.

12:15

The Scottish insurance industry functions in several ways. A number of ABI members are headquartered in Scotland: Standard Life is a big example of that, Aegon's UK business is headquartered in Scotland and Scottish Widows is headquartered here. Also, a number of ABI members that are headquartered elsewhere are significant employers in Scotland. For example, Aviva is increasingly employing in Scotland and Royal London is headquartered in England but has Scotland-based businesses, such as Scottish Life. Moreover, many insurers throughout the UK have a great many Scottish customers no matter where the insurer is headquartered. That is a matrix way of looking at the industry.

I examined three types of common-or-garden policy to try to give you an idea of how ordinary people are touched by the insurance industry, although I am afraid that I was unable to get Scottish figures. In 2008, there were 26 million motor policies, 20 million household contents policies and 28 million pension policies. Through those three product lines alone, the industry touched something like three quarters of households in the UK. That is not a fantastically analytical statistic, but it gives you a flavour of the industry's reach.

My next theme, which is that insurance is not banking, is slightly more technical. I am not a banking technician, but I will do my best. There are important differences between the sectors. David Nish touched on the point, which all our members would endorse absolutely, that when we move forward to the new regulatory system—whatever it looks like—the differences between insurance and banking must be properly taken into account. Solvency II is a good example of that.

Banks are essentially in the business of borrowing short to lend long. Apparently, the technical term for that is maturity transformation. Insurers are in a different business; they are about managing assets and liabilities, so the insurance industry does not start with such a duration mismatch, as we might call it. That is a fundamental difference and one reason why insurers are much less likely to suffer from the sort of liquidity problems that brought down the likes of Northern Rock. Insurers do not do the casino banking that the banks do; they do not undertake trading operations in the same way and their business is much less liquid. For example, people cannot take money out of their pensions before age 50 or 55, so we will not get a run on an insurer that has a lot of pensions business on its books in the way that we would get a run on a bank. Those are technical differences that perhaps do not sound exciting but, if we are examining the business model, matter a great deal.

David Nish alluded to the changes at Standard Life in 2003-04. It underwent a specific change, but there was a period between 2001 and 2004 in which the insurance industry came under extreme strain. The prudential regulation was reformed at that time and the individual capital adequacy regime was introduced. Many of our members would reference that as one of the reasons why the insurance industry has weathered the storm rather better than the banks.

Another difference that is perhaps of particular interest to Scotland is that Scottish banks built up their business within Scottish borders and did not go international until the 1990s, whereas the Scottish insurers have been writing business outside Scotland for much longer. I did not know about the Hudson's Bay Company, but I found that fascinating. Standard Life is not alone in that, because Scottish insurers have been writing business for getting on for 200 years. That difference in approach means that it has built up the people, expertise, memory and experience within the company.

The last theme on which I will touch is the fact that there is a good story to tell about the wider financial services sector. Scotland in particular has a good story.

The UK insurance industry is the largest in Europe and third largest in the world. I have already talked about many of our members having a significant presence in Scotland. We reckon that somewhere between 20,000 and 25,000 people are employed in the insurance and financial services industry in Scotland; it is a significant employer. We reckon that another 3,000 or so are employed in investment management. About £580 billion is under management. That represents pensions and savings for many people in Scotland and throughout the UK. The figures are rather difficult to get hold of, but I have some company-specific figures, if the committee is interested.

It is interesting that Scotland contains particular hubs. Edinburgh has long been a hub for life insurance, and Glasgow is increasingly becoming one as well. The Perth area is increasingly seen as a hub for general insurance. I am happy to talk about that later. Aviva has been grateful for the work that local government and the Scottish Government have done to help it build up that business. Looking forward, which we should be doing, we know that, come 2012, all employers will be required to provide pension schemes for their employees. Edinburgh is one of the biggest centres of pensions technical expertise in the country.

David Nish's phrase "encouraged but cautious" is excellent and probably describes where most of the industry is sitting at the moment. We spent a lot of time over the summer trying to tell anybody

who would listen that insurance is not banking and that there is a lot more to financial services in the UK and in Scotland.

David Nish touched on another thing that we find increasingly relevant: the importance of the talent pool in Scotland. Every member to whom I speak mentions that if they employ people in Scotland or want to do so. They also talk about the quality of life in Scotland and the fact that people want to live here. Perhaps I may be permitted to make a personal comment. When I joined ABI three years ago, I deliberately stayed in Scotland because I wanted to continue to live here. Although I work in London an awful lot of the time, I still live here and I think it is a great place to work.

Those are my opening remarks. I am happy to take any questions.

**The Convener:** Thank you for that comprehensive introduction. How many insurance companies are headquartered in Scotland and how many jobs are there in the insurance sector here? Will you also say a little about the types of services that your members provide?

**Maggie Craig:** The insurance arm of Scottish Widows is headquartered in Scotland. We reckon that it employs about 3,000 people here. Although its insurance arm is headquartered in Scotland, much of its general insurance business is done down south—much of it is done out of Wales. Nevertheless, a lot of its life and pensions business is done out of Scotland.

David Nish talked about Standard Life. Aviva has about 1,600 people in Perth and about 900 in Bishopbriggs, predominantly in its general insurance arm. The UK headquarters of Aegon is out at the Gyle, where it employs just under 5,000 people in life insurance, pensions and asset management. Although Royal London is a London-based brand, funnily enough it has a lot of Edinburgh-based employees. It has about 1,200 at Scottish Life and Bright Grey. The Royal Bank of Scotland has about 1,700 or 1,800 employees in Scotland.

The picture is mixed. It is difficult to slice and dice it and get precise figures. There are a number of smaller institutions as well. Does that give you a flavour?

**The Convener:** Thank you. That is helpful.

**Rob Gibson:** We have talked about some aspects of the insurance industry, including asset management, but we have not yet had a full look at the role and strength of asset management in Scotland. Are you prepared to say a bit about that now, based on your business experience?

**Maggie Craig:** I can certainly say a bit about it. A number of areas are quite technical, so if there



are any on which you want additional evidence I will be happy to supply it.

A glance at asset management shows that there are two types of asset manager in Scotland: we have the asset management arms of the big insurance companies—Scottish Widows, Standard Life, Aegon and the like—and there are pure asset managers such as Aberdeen Asset Management and Baillie Gifford. They all have a significant presence in Scotland. They work with ABI to some extent. They have their own trade body, the Investment Management Association, and they do some of their work through that, but there is a complicated interplay in the sense that a lot of asset management firms form the underlying investment for the retail products that the insurance industry sells. For example, if I bought a personal pension from Scottish Widows, it would commonly give me access not only to Scottish Widows funds but to funds run by Gartmore, Aberdeen Asset Management or whatever.

**Rob Gibson:** That is something for us to pursue in due course. We talked about the European regulation issue earlier. David Nish offered us opportunities to contribute things to support our industry. What is your take on the current state of the discussions in Europe?

**Maggie Craig:** I will start with solvency II, although I would like to bring another area to the committee's attention, too.

David Nish's comments about where solvency II is going are echoed by all my members. The concerns are around the level of capital, the detail and the calibration of how the capital might be worked out. We should remember that that is not just a technical point. For example, if an insurance business that requires capital is selling annuities and is required to hold more capital to back the annuities, that will affect the amount of annuity that any individual person will be able to buy when they come to retirement with their pension fund. We need to understand that solvency II is not an abstruse technical matter that goes on in the back rooms of Brussels—that is a key point.

As David Nish said, we are doing a lot of lobbying on the issue and we work with all our member companies in that regard. David Nish is right in that we found at the beginning that it was viewed as a UK-centric problem. There is an umbrella organisation called the CEA, which is the European equivalent of the ABI; it is a sort of trade association of trade associations. At the last two or three meetings to discuss the issues, I have noticed a shift whereby there is more understanding that it is not only a UK problem. We work closely here with the FSA and we work closely in Brussels with the Committee of European Insurance and Occupational Pensions Supervisors—CEIOPS—the regulatory authority,

and directly with the European Commission. I am more than happy to provide extra technical evidence on the issue and to suggest ways in which the Economy, Energy and Tourism Committee might help. We find intervention by members of the European Parliament particularly helpful in this regard.

**Rob Gibson:** I noted some of those issues from what David Nish of Standard Life said. Is anything particularly an issue right now in the development of solvency II?

**Maggie Craig:** David Nish touched on the two main issues, which are the liquidity premium and the different tiering of the capital requirements—it is very detailed technical work.

**Ms Alexander:** I want to follow up the point about the role of institutional investors. You highlight in your evidence that your members are responsible for 20 per cent of the shares on the British stock exchange. That carries a burden of responsibility. You will be aware of the House of Commons Treasury Committee's criticisms in its evidence to us last week. What expectations should we have of institutional investors playing a stronger role going forward in corporate governance and risk management?

**Maggie Craig:** That is another area on which I would welcome the opportunity to provide written evidence, if the committee so wished, because so much is going on. The first point to make is that institutional shareholders recognise that they could have done, and should do, more. One of the difficulties is in gaining traction. The example that John McFall gave at last week's committee meeting was that of an institutional investor going time and time again to one of the banks, but just being rebuffed.

We are doing quite a lot of work in this area. We are very supportive of the Walker review and we have recently been working on a new institutional shareholder code. We have brought together the main big trade associations representing the institutional shareholders: the ABI, the Investment Management Association and the National Association of Pension Funds. We are putting together a code that will enable institutional shareholders to see what best practice is in corporate governance, remuneration and shareholder engagement. The institutional shareholders would be invited to join up and comply with the code, which is to be overseen by the Financial Reporting Council. We are working on the details of how the code would operate and how the FRC would oversee it. There is therefore acknowledgement that we must do more and that there must be better ways of getting traction and bringing institutional shareholders together so that they can coalesce—that is the start of our work.

12:30

**Ms Alexander:** I will ask about a different and unrelated issue. In the various inquiries that are going on—and indeed during this morning's questioning—a number of individuals have dwelt on the breadth of Scotland's financial services sector, making it clear that we should not simply concentrate on the banks. Moreover, in our evidence sessions with the banks, concerns have been expressed that although jobs in Scotland might not have been hit disproportionately, headquarters functions are discernibly drifting south of the border. Does it matter to the insurance industry's success and prosperity whether significant banking operations are headquartered in Scotland?

**Maggie Craig:** Did you say "significant banking operations"?

**Ms Alexander:** Yes. Is what happens in Scotland's banking industry immaterial to your members' wealth, success or talent pool? I am simply trying to get some sense of the interrelatedness of the two sectors.

**Maggie Craig:** The sectors are interrelated, but let me unpick that a little bit. Many of our biggest members are bank assurers. For example, Scottish Widows, which is the life and pensions bit of the business that I deal most closely with, is ultimately part of Lloyds, and the insurance arm of the Royal Bank of Scotland is a very strong business. There is certainly an interrelatedness at a business level and, in that sense, the issue matters a great deal.

**Ms Alexander:** But beyond those kinds of insurance activities does it matter to you whether the banks are headquartered or have a significant presence in Scotland?

**Maggie Craig:** Any business will have a number of reasons for deciding where to headquarter itself. That is a matter for the banks. The insurance industry works with banks all over the UK and globally, but I still think that the running of the businesses is interrelated.

**Stuart McMillan:** I have already sought from Mr Nish clarification about concerns about solvency II. How might the process affect people with asbestos-related conditions, particularly in light of last week's decision in the Court of Session on pleural plaques?

**Maggie Craig:** Unfortunately, I cannot answer that question at the moment because we are still working through solvency II to find out what it might mean for capital requirements for businesses at a European level; how it might affect each business, which will depend on its business mix and the types of business, such as annuities, that it writes; and then how it might

affect specific business classes. I am perfectly willing to seek more information from the insurers and to share with the committee whatever I can get.

**Stuart McMillan:** To be honest, I have to say that, as I was reading the evidence, I found the solvency II issue confusing and was unsure about how it might affect people in Scotland. If you can find any examples that might help to clarify whether people with asbestos-related conditions will be affected, that would be helpful.

**Maggie Craig:** It will be a bit difficult because it is all a bit of a moving feast at the moment, but we can certainly try to work something out. The clearest example that I can give at the moment is annuities, which I mentioned earlier. If you are writing an annuity business, you have to put aside a certain amount of capital because you are guaranteeing someone that income for life. If solvency II means that you will have to set aside more capital, it will affect the amount of annuity that you will be able to give someone for the pot that they buy. That is probably a bit simplistic, but if such examples help I will certainly do my best to see what I can get.

**Stuart McMillan:** That would be good.

A report in the *Sunday Herald* at the weekend suggested that the FSA is now keen to look at business models to ensure that what has happened over the past 18 months or so does not happen again. Do you think that if that approach had been taken beforehand businesses would have been in a better position and the likes of Northern Rock could have been saved earlier and in a different manner? Would that have been beneficial? I know that that is a hypothetical question.

**Maggie Craig:** I will try to answer, although I am not an expert on banking. What you are alluding to goes back to my opening remarks. Any ABI member would say that, for quite a long time, the FSA has paid quite a lot of attention to its business. As I said, the regulatory regime for the insurance industry was overhauled in 2001 to 2004 and the individual capital adequacy regime was introduced. We in the industry felt that that had a lot to do with the fact that we weathered the storm rather better.

The FSA's supervision is quite intense; I have been at the other end of an arrow visit and it is quite an intense process. From personal experience, I know that the process is robust. However, the supervision of the businesses must also be appropriate, not just in terms of the level and type of supervision. It is very important that the people from the regulator who are supervising have the appropriate expertise to do that—they must understand the sort of businesses that they

are supervising so that they are able to supervise appropriately.

I am not sure whether that helps, but it is the best answer that I can give.

**Stuart McMillan:** That is okay for now. Thank you.

**Gavin Brown:** The so-called hedge fund directive will be debated during members' business in the Parliament this evening. Will the directive have any impact on any of your members? Has your organisation been involved with it?

**Maggie Craig:** Yes, we have been involved with the directive and have lobbied quite heavily on it because it will affect the asset management arms of businesses. We have also worked with the Investment Management Association, which is probably more in the frame for it than we are.

The short answer is that, yes, the directive will impact on our members. I am not sure whether there are any specific points that you want to follow up, but I am not an investment manager.

**Gavin Brown:** The directive will be fairly time sensitive, as will solvency II. Although we are talking about a European directive, have your members indicated to you anything specific that they want you to raise with the committee and MSPs?

**Maggie Craig:** Nothing that they have briefed me on, and I think that they would have done so.

**Gavin Brown:** Okay. Let us return briefly to the solvency II framework directive. When we took evidence from some of the banks, they seemed genuinely surprised at the European Commission's powers of regulation, and particularly its interventions at the tail-end of November. Do you believe that the Commission has similarly intrusive powers in respect of insurance and pensions?

**Maggie Craig:** Are you asking about European regulators?

**Gavin Brown:** Yes.

**Maggie Craig:** The difficulty is that the markets are very different. A product that is classified as a pension in the UK can look very different from a product that is classified as a pension in mainland Europe. Therefore, the main difficulties that spring to my mind in relation to European supervision and regulation are less about intensity and more about the fact that the products are so different. For example, an occupational pension in this country is a trust-based operation that is run by an employer, whereas, in Germany, it is more a commercial product. The difficulties are more about the fact that pensions and life insurance are

different across Europe than about the intensity of supervision—it is rather the other way round.

**Gavin Brown:** As you described it, the initial difficulty with solvency II was that it was seen to be a UK issue. How will your relationship with the CEA change over time to ensure that you do not encounter such obstacles again?

**Maggie Craig:** We are a member of the CEA, as are the German and the French equivalents of the ABI. We put a lot of effort into European lobbying, and we are putting more and more effort into it. We sometimes find, partly because the UK insurance industry is a more mature market, that our view is not absolutely aligned with that of all our counterparts from mainland Europe. We continue to lobby heavily.

Another issue that is being discussed is packaged retail investment products, which in this country we would understand as pensions and savings vehicles. The UK is very much further ahead in disclosing to customers how those products are paid for and what the commission levels are. Mainland Europe is significantly behind in that—or significantly different from us, whichever way you want to phrase it. We have spent a lot of time lobbying on that issue. At one point, when the CEA took to the Commission a position that we did not agree with, we requested that a footnote be put in to say that we did not agree with it.

**Christopher Harvie:** I will raise an issue that I picked up from our questions to David Nish. He talked about insurance companies being a source of money for investors in investors and cited private equity. Robert Peston was one of the first people the committee interviewed in this inquiry. A year or so ago I read his book, "Who Runs Britain?", in which there is both a rather dewy-eyed exultation of the big beasts of private equity and a tragic chapter about the collapse of secure final salary pensions. How does that hit? What is the impact of that juxtaposition between the cash going in one direction to private equity, which has not had the best of years in the past year, and the demolition of what Peter Drucker once called "pension fund socialism"?

**Maggie Craig:** Wow. The first point is that defined benefit pension schemes are more properly represented by the National Association of Pension Funds, but ABI members have a keen interest in the area, because we provide a lot of the underlying investment. My second point also pertains to the European issue, because as an animal such schemes do not exist in Europe in the same way as they do here, which creates a lot of difficulties for us in relation to lobbying and understanding in Europe. The schemes could also be affected by solvency II. Defined benefit schemes have, over the years, required more and

more funding from the employers that support them, which has been a key factor in more and more employers moving away from them. The volatility of the funding is also an issue, as is the fact that the cheque book is open-ended, if you like, which is a pressure on employers. An employer in a defined benefit scheme has to meet its liabilities and has to do what it says it will do, until it finally says, "No, I will no longer take this animal forward." That is the point at which it acknowledges that there are pressures that are making it withdraw from defined benefit schemes.

A side provision, which may come along after solvency II, is a sort of solvency II for occupational pensions, which would push the funding liabilities for defined benefit pensions still higher. We will lobby on that issue in the future. I am sorry that that is not a precise answer to your question, but it is a difficult one; it is really for employers to decide.

**Christopher Harvie:** Yes, but, as investors in investors, are you not alarmed, following the euphoria of private equity in 2007 and the first half of 2008, by the course of private equity investment since then?

**Maggie Craig:** I am unable to answer that; it is more a question for individual member companies to answer. They would base their views on what they see in relation to investors in investors. That work would be handled by the companies' investment arms.

**Christopher Harvie:** There has been a fairly hefty collapse in the past couple of years. Assuming that there are companies that have invested heavily in private equity, it is one of these things that will take some time to work through the system before we know what has happened.

**Maggie Craig:** I am sorry, but I do not have the expertise to answer your question, so I would not like to tread on it.

**Lewis Macdonald:** At one time, the insurance sector would have had quite a number of members that were mutual businesses. When you listed the big players in your Scottish membership, I did not spot any mutuals surviving. Is that a fair reflection of the position?

**Maggie Craig:** There is Scottish Friendly, but I would not call it particularly large. Royal London is actually a mutual.

**Lewis Macdonald:** Is it?

**Maggie Craig:** Yes. It does not sound like a mutual because it does not happen to have "mutual" in its name, but it is a mutual. The ABI has mutual members. Royal London is the biggest, and probably has the biggest Scottish presence, but we do not have anything like as many as we used to have.

12:45

**Lewis Macdonald:** Do you regard that continuing level of diversity as a strength for the sector?

**Maggie Craig:** Diversity in the sector is a strength. It is up to individual members rather than us to choose what business model they run, but when we lobby we take account of mutual interests—that sounds like a pun, but I do not mean it in that way. We take account of the interests of all types of members when we lobby.

**Lewis Macdonald:** One of the points that I put to David Nish relates to the building society sector and its concern about the financial services compensation scheme. I guess that that has an impact on your members too, in the sense that the banking crisis has had knock-on effects across the financial services sector. The building society witnesses from whom we have heard believe that the scheme unfairly penalises them, as their liability to pay in is greater and the likelihood of it paying out to them is reduced. Does your association, or the industry, have a view on that?

**Maggie Craig:** We certainly have members who are concerned about the way in which the cross-subsidy operates; I would say that we have similar concerns to those of the building societies.

**Lewis Macdonald:** You have members who have a view, but you have not taken a collective view.

**Maggie Craig:** We have, and that is the collective view. There is a great deal to the financial services compensation scheme, and there are broad concerns about it. As an association representing our members, we have concerns, and the element of cross-subsidy—to which I guess you are referring—is one of them.

**Lewis Macdonald:** That is helpful.

One aspect of what is happening in banking that has an impact—certainly in terms of reputation—on other parts of the financial services sector is the remuneration of staff. We have heard a lot of evidence about bonuses in the banking sector, about which there has been controversy. Is there a parallel position in insurance? Is the payment of large bonuses that are separate from salaries a feature of the sector in the same way that it is in banking?

**Maggie Craig:** Not quite to the same extent. That is another area in which we need to remember that insurance is not banking. I get slightly alarmed when there is talk about people in financial services all earning lots of money and getting huge bonuses. A lot of people who are sitting in Standard Life house or out at the Gyle, or working for Scottish Widows, earn £15,000, £18,000 or £20,000 a year and get bonuses of 8

or 10 per cent. That is not the same thing at all, and we forget that at our peril. It is very unfair that the whole industry gets tarnished with an image of huge bonuses.

**Lewis Macdonald:** I completely agree with your point that it is often entirely appropriate for people on average salaries to receive a generous bonus. The concern is about the people who are on very large salaries and regularly receive very large bonuses. Is that a feature of your sector at all?

**Maggie Craig:** Bonuses are paid, but I do not think that they come anywhere near the sort of bonuses that we see—or saw—among investment bankers. They are not in the stratosphere.

**Lewis Macdonald:** Would there be a recruitment benefit for your sector from bank bonuses becoming more related to the real world?

**Maggie Craig:** I do not know—our members might like to comment on that.

**Marilyn Livingstone:** We heard from David Nish—we have heard this from witnesses throughout our evidence sessions for the inquiry—that Scotland's assets include its skills base and the pool of expert staff that are available to companies throughout the country. Does your organisation have any input into the skills agenda in Scotland?

**Maggie Craig:** No really, but we very much want to remedy that. I am currently acting director general, but my two real jobs are director of life and savings, and director of Scottish affairs. The post of director of Scottish affairs was created about a year ago, because we wanted to do much more work as an association in a specifically Scottish context.

We began to pick up on the concept of personal finance education in schools, which is a wider topic than the skills base. I have had a couple of meetings in which we have started to explore that, but I am—and the association is—interested in doing more work in that area. We run a small future leaders forum for ABI members, and many of the future leaders who come through that are employed by our Scottish members. There is a bit of work going on, but we would like to develop that area.

**Marilyn Livingstone:** Do Scotland's universities and colleges produce the right calibre of graduate for your industry?

**Maggie Craig:** Yes. Scottish ABI members always cite that as one of the key factors that keep them in Scotland. We have only to look at the anecdotal evidence on the number of people who come through Scottish financial institutions and move around them—from Standard Life to Scottish Widows to Aegon or Scottish Life, for instance—to see that, by and large, the

universities produce the right calibre of graduate. The skills base is important, and the links between the universities and the ABI member firms are becoming better.

**Marilyn Livingstone:** If the committee were to make a recommendation on that agenda, what should it be?

**Maggie Craig:** I would like to think about that a bit more. I make a personal observation that we need to think about the fact that it is not only about university-level qualifications but about people coming straight from school and going into jobs that can be rewarding, are well paid and offer good careers. However, I would like to come back to that, if I may.

**The Convener:** We touched on the responsibilities of institutional shareholders. The Treasury Committee at Westminster has described institutional investors as “supine and ineffective”. The corporate governance of the banks seems to have been wanting, certainly in RBS and HBOS. Have institutional investors, of which ABI members are a fairly significant part, done enough to ensure that the banks' boards assess risk properly? Have they done enough on remuneration policies and the bankers' bonuses about which we hear so much? Do institutional investors take a sufficiently strong role in trying to ensure that issues such as remuneration are dealt with satisfactorily?

**Maggie Craig:** The new institutional shareholders code about which I spoke earlier is an acknowledgement that institutional shareholders agree that they need to do more. The code covers all aspects: shareholder responsibilities, remuneration and governance. If the committee is interested, I am more than happy to send a copy of the code for it to examine.

We believe that this is the first time that an institutional shareholders code has been developed. We do not know of other countries with a similar code but we have had interest from France and Norway in developing one. I would be more than happy to share it. It is intended to do precisely what you ask about.

**The Convener:** Does the code cover, for example, the information that is made available to institutional investors so that they are able to make judgments about whether boards are operating effectively?

**Maggie Craig:** I believe that there are such references, but I will need to go back and check how far the code goes. David Nish's point that there is a limit is relevant to that. People sometimes seem to think that institutional shareholders have more information than they do. I will double check the code and, as I said, I am more than happy to send you a copy.

**The Convener:** The committee would welcome a copy of the code. That would be good.

I will finish on what I hope is a more positive point: are there any particular strengths in the insurance or asset management industries in Scotland that will help to contribute to the viability of Scottish financial services?

**Maggie Craig:** We have touched on the skills set and we keep coming back to it because it is of absolute importance.

I did a lot of work recently with Aviva on the work that it has done at Perth and in setting up its operations at Bishopbriggs. It was very appreciative of the work that local government and the Scottish Government had done to help it in that regard.

The hub concept seems to work really well. We have a hub or centre of excellence—call it what you will—in Edinburgh and beyond for life and pensions, and we are developing one in Perth for the general insurance side. That becomes self-perpetuating because, once people realise that they can get a decent job in an area, they go there, like it and get another decent job there.

I am not sure how such hubs start, but our members value them. There is an interplay between the skills set and the general idea that that is the place one goes to. In the same way as some people decide that they must go and work in the City of London, if somebody wants to get pensions expertise, Edinburgh is a good place to be. It would be important to continue and develop that.

**Rob Gibson:** We talked about lobbying in Europe. I am curious to know why there might be different models in Europe for what we call pension products here and why that is such a problem when lobbying for the types of business that we do through Scotland's insurance companies.

**Maggie Craig:** One reason that there are so many different types of pension products is historical—they have just grown up differently. Another reason is the fact that models for private sector pensions are driven by the social, labour and tax law in different countries. For example, if a country provides very high state pensions, there is less need for a private sector pension industry. That is a crude example, but it is the sort of factor that plays in.

Reference has been made to the lobbying issues that can be created. For example, the defined benefit pension sector in this country is a commercial enterprise in terms of underlying investment, but the pension scheme for company A does not compete against that for company B. What are called occupational pension schemes in

Germany, for example, are commercial products, so the term occupational pension means different things in different countries. In one country, people might think that proper competition law-type arrangements are needed in the area, but we in the UK would not, because here occupational pension schemes are not competing products. That is an example at a high level, but I hope that it gives members a flavour of some of the issues.

**Rob Gibson:** It is useful to see what the discussion is about.

**Stuart McMillan:** The hub concept sounds positive. I do not want to sound negative, but there is a potentially negative aspect to it. I will use the example of Perth, which is focusing on general insurance. Further down the line, if Aviva wants to restructure and its facility in Perth closes, 1,600 people will no longer be in employment. I am sure that you agree that putting all our eggs in one basket in one area is a potential negative.

**Maggie Craig:** I understand your point. Perth is a very new hub. Lots of companies come to Edinburgh and want to stay because they know that the expertise is here. If something happens to company A, there may be jobs at company B. In any industry, using any business model—hub or otherwise—there is always a danger that companies will move or things will change. However, once a hub is up and running and more than one company is operating there, it can be helpful.

**The Convener:** That concludes the session. Thank you for coming along to today's meeting and for the information that you have provided; once again, I apologise for the delay in bringing you on board. It would be helpful if you could provide the additional information that you mentioned. The committee is keen to give any help that it can usefully provide on solvency II and European hedge fund regulations.

**Maggie Craig:** Thank you for your time.

**The Convener:** In light of the information that we have received on solvency II and hedge fund regulations, I propose to write to the Cabinet Secretary for Finance and Sustainable Growth, John Swinney, to ask him, in advance of his appearance before the committee in a few weeks' time, what action the Scottish Government has taken on those issues.

**Members indicated agreement.**

**The Convener:** Further to last week's discussion in relation to the Treasury Committee, we are bidding for funding from the Conveners Group for a visit to London—probably on 26 January, if we get approval in time. We will be able to attend a meeting of the Treasury Committee, to have an informal meeting with members of the

committee afterwards and, I hope, to have meetings with other organisations, including the FSA. Even the Bank of England may let us in—who knows? We will try. I wanted to advise members in advance that the visit may happen on 26 January, at fairly short notice. It will take place subject to the approval of the Conveners Group, which will consider the bid next week.

Next week we will take evidence from State Street, which is an asset-processing organisation, on some of the backroom activities that happen in Scotland. We are still trying to get someone from the asset management industry to give evidence to us.

*Meeting closed at 12:59.*





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