

TRANSPORT AND THE ENVIRONMENT COMMITTEE

Friday 9 November 2001

Session 1

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TRANSPORT AND THE ENVIRONMENT COMMITTEE

27th Meeting 2001, Session 1

CONVENER

*Mr Andy Kerr (East Kilbride) (Lab)

DEPUTY CONVENER

*Nora Radcliffe (Gordon) (LD)

COMMITTEE MEMBERS

Robin Harper (Lothians) (Green)

Mr Adam Ingram (South of Scotland) (SNP)

*Maureen Macmillan (Highlands and Islands) (Lab)

*Fiona McLeod (West of Scotland) (SNP)

*Des McNulty (Clydebank and Milngavie) (Lab)

*Bristow Muldoon (Livingston) (Lab)

*John Scott (Ayr) (Con)

*attended

THE FOLLOWING ALSO ATTENDED:

Brian Adam (North-East Scotland) (SNP)

Richard Lochhead (North-East Scotland) (SNP)

Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD)

Elaine Thomson (Aberdeen North) (Lab)

WITNESSES

Katharine Bryan (North of Scotland Water Authority)

Councillor Robert Cairns (East of Scotland Water)

Charlie Cornish (West of Scotland Water)

William Fleming (Scottish Executive Environment and Rural Affairs Department)

Ed Gillespie (Scottish Enterprise Grampian)

Dr Jon Hargreaves (East of Scotland Water)

Amanda Harvie (Aberdeen and Grampian Chamber of Commerce)

Patricia Henton (Scottish Environment Protection Agency)

Tim Hooton (Scottish Executive Environment and Rural Affairs Department)

Tom Inglis (Scottish Environment Protection Agency)

Councillor Len Ironside (Aberdeen City Council)

Councillor Alison McInnes (Aberdeenshire Council)

Colin McLaren (Scottish Executive Environment and Rural Affairs Department)

Dr Donald Reid (Scottish Executive Environment and Rural Affairs Department)

Colin Rennie (North of Scotland Water Authority)

Alan Sutherland (Water Industry Commissioner for Scotland)

CLERK TO THE COMMITTEE

Callum Thomson

SENIOR ASSISTANT CLERK

Tracey Haw e

ASSISTANT CLERK

Alastair Macfie

LOCATION

The Council Chamber, Aberdeen Town House

Scottish Parliament

Transport and the Environment Committee

Friday 9 November 2001

[THE CONVENER *opened the meeting in private at 10:33*]

10:44

Meeting continued in public.

The Convener (Mr Andy Kerr): I begin by welcoming the press and public to this meeting of the Transport and the Environment Committee. I also welcome some MSPs who are not usually with us—Mike Rumbles, Richard Lochhead, Brian Adam and Elaine Thomson—but who are particularly interested in our agenda this morning. I understand that Bruce Crawford will also join us at some point. Fiona McLeod, who is a member of the committee, may join us later this morning. We also have the lord provost in the gallery this morning, which is very pleasing.

This is our third attempt to get to Aberdeen and we are pleased to have made it this time. The weather interfered in our first venture. The second time that we scheduled the meeting it had to be cancelled because the general election got in the way. We are pleased to be here today, because we believe strongly in taking the Parliament round Scotland to hear views directly. We had some interesting discussions last night and this morning on issues related to our work as a committee. The committee's presence here is a measure of the Parliament's commitment to go round the country.

I crave your indulgence with regard to yesterday's events. Whatever we may say about the politics of it, Henry McLeish made an enormous contribution to the Scottish Parliament before it was set up, through his work at the Westminster Parliament and on the consultative steering group and other bodies. He helped to create the committee structure of the Scottish Parliament, which we hold so dear. We thank him for that and wish him well in what is clearly a troubled time. It is good for the committee to record that feeling towards Henry, who made the very courageous decision to make a personal statement in the chamber yesterday.

That said, we move on to the two main elements of today's meeting. We will take evidence this afternoon as part of our consideration of the Water Industry (Scotland) Bill. This morning, however, we are discussing an important local issue, about which we have some knowledge as the result of

previous discussions in the Parliament and in the media: integrated transport issues in Aberdeen and the surrounding area.

Items in Private

The Convener: I invite members to consider whether to take agenda item 6 in private. We would do that simply to enable us to discuss in private the names of possible witnesses for our aquaculture inquiry. Do members agree to take item 6 in private?

Members indicated agreement.

The Convener: At next week's meeting, we hope to start considering the content of our draft report on the Water Industry (Scotland) Bill. It is normal for draft committee reports to be discussed in private. Do members also agree to take that item in private?

Members indicated agreement.

Integrated Transport (Aberdeen Area)

The Convener: We now come to the substantive part of this morning's business: our consideration of Aberdeen transport issues. The purpose of this evidence-taking session is to better inform us of the specific transport issues affecting Aberdeen and the surrounding areas.

I warmly welcome the representatives of the north-east Scotland transport partnership—NESTRANS. They are Councillor Len Ironside, leader of Aberdeen City Council, Councillor Alison McInnes, chair of the council's infrastructure services committee, Ed Gillespie, chief executive of Scottish Enterprise Grampian and Amanda Harvie, chief executive of Aberdeen and Grampian Chamber of Commerce. Thank you for your submission. The evidence that we have received from the Executive has also been circulated to members. In keeping with our traditional practice, I invite our witnesses to make some opening remarks.

Councillor Len Ironside (Aberdeen City Council): Good morning, and a very warm welcome to Aberdeen at the end of our summer. As you will be aware, transport in the north-east is a highly charged topic. It is widely felt that Governments over the years have failed the north-east by not investing in our transport infrastructure. The topic generates a lot of strong emotions, but today we want to go beyond emotions and focus on the facts about the area's infrastructure and how it affects the local and national economy.

The four partners in NESTRANS share a vision of a modern transport system for the area, and we have developed detailed transport strategies to achieve that, in line with the Government's guidance. We are determined to work together to bring it about. Aberdeen City Council's petition, PE357, which was referred to you by the Public Petitions Committee, also represents a cross-party concern within the council about the level of national investment in transport infrastructure in the city, particularly in our road networks.

For years, the north-east has been making do with a totally inadequate trunk road network. The southern approach to Aberdeen is across the medieval Bridge of Dee. Anderson Drive and the Parkway are interrupted by 16 sets of traffic signals, in sharp contrast to the dual carriageway network south of the Bridge of Dee. Dualling does not extend to the Balmedie-Tipperty section of the A90, despite its dreadful safety record. West towards Inverness, the A96 is also poor. The route is characterised by a railway bridge at Inveramsay, which is signal controlled since it cannot take two

large vehicles at once: it must surely be the only single-track section of the trans-European road network. All those points—and the majority of congestion points in the north-east—are on trunk roads. They are a major constraint to the movement of goods and people.

Members of the committee may be aware of the traffic problems that were caused earlier this year by the closure of the small, private bridge over the River Don at Grandholm. The bridge carried about 3,000 vehicles per day, until it was closed by the owners in late December after a survey found it to be unsafe. The impact of 600 additional cars in the peak hour being displaced on to the existing road network was horrific. The congestion that followed was symptomatic of a transport system that is bursting at the seams, and showed the need for a cash injection. The congestion led to a public outcry; 2,500 members of the public attended a meeting at the exhibition centre.

I turn to what we envisage as a modern transport system for the north-east. The two local authorities, the enterprise company and the chamber of commerce have worked together through NESTRANS to develop a transport vision and strategy for the north-east. In many ways, our vision could be seen as a forerunner of what is now being promoted through the Transport (Scotland) Act 2001, which includes proposals for local transport strategies and regional transport partnerships.

A modern transport system requires to be developed, with a 16-year integrated programme, for the whole of the north-east. We had consultancy support from Oscar Faber and Halcrow Fox and the chosen strategy emerged from detailed testing of the alternatives. The Scottish Executive's recent involvement with NESTRANS is welcomed. The broad support of both the First Minister and the Minister for Transport and Planning, and the final financial backing that we have received for certain elements have marked a major step forward.

Our proposal constitutes a balanced and integrated strategy, which seeks to reverse the decline in use of public transport and to encourage the use of rail, bus, community transport, park-and-ride systems and pedestrian-friendly centres and cycle networks. Those measures must be balanced with the need to provide adequate roads for strategic traffic and to improve access around the city to enable the efficient movement of freight and business traffic, which is crucial to our economy. A western peripheral route, including a new crossing over both the Dee and the Don, forms a key element of the modern transport system. It is a baseline package that is needed to sustain the local economy.

The western peripheral route could operate as a

bypass, a strategic route for freight and business traffic, a distributor and a link to park-and-ride sites. It will enable reprioritisation of road space to favour pedestrians and bus users in the city centre. It will remove inappropriate levels of traffic from unsuitable roads, in both urban and rural areas. It is a strategic road, which will help to overcome many of the deficiencies of the existing trunk road network by improving accessibility to and across the city. It will assist the movement of goods to and from markets in the UK and into Europe. We believe that the route should be funded by the Scottish Executive. It is difficult to believe that once such a road was built it would not immediately be trunked, and that should be recognised now in its funding.

Some detractors ask why a road is needed. I ask them to consider Edinburgh without its bypass. Would anyone advocate the closure of that road? Would it be beneficial to have lorries passing along Princes Street or acceptable to have traffic going south through Colinton village? That is the situation that we have in Scotland's third city—Europe's oil capital—with heavy traffic crossing through the city centre because the trunk road network is not fit for purpose and does not serve its strategic role.

We have welcomed the financial support that has been forthcoming from the Scottish Executive towards improving travel choices, in particular the public transport fund for park-and-ride services, both for Aberdeen and Aberdeenshire. Those are significant improvements, but because of the absence of parallel investment in the road network, the public perceive their implementation as imbalanced and anti-car. What is needed is a clear commitment to the whole strategy and a more balanced programme of implementation.

We now seek a commitment to developing the £247 million modern transport system strategy as a whole. Although that is not a massive amount of money, it is beyond the combined capabilities of local authorities and their partners.

The Executive's approval of Glasgow's £250 million M74 extension was no doubt considered vital to Scotland's future economic development. However, it is equally important—and just as vital to Scotland's economy—to invest in the north-east. This area has led the way in Scotland in developing an integrated transport strategy that is supported by all sides, including the business community and the public. The area has developed partnerships, demonstrated integration and sought to work with the Executive to draw up solutions to trunk road issues. Ironically, the Glasgow decision allocated to a single road scheme almost exactly the same amount of money that would be required to develop the whole of the north-east's modern transport system

through a 16-year integrated programme of schemes.

The north-east has made a huge contribution to the wealth of the nation in the past three decades. For example, the area contributes the highest gross domestic product per capita outside London. However, such strength seems to be used as a reason not to invest instead of a reason to recognise and nurture that strength. We recognise the need to diversify from our current strength instead of waiting for decline. If we are to be an attractive and competitive destination for private investment, we must be supported by fair priority for public infrastructure investment.

We believe that we have a good case for the active support of the Scottish Executive to contribute to Scotland's future prosperity. Many north-east companies now serve markets worldwide and could operate elsewhere. We need to anchor those companies in the area as well as attract continued investment, which will require evidence of an improving transport infrastructure. Failure to do so could have a significant negative impact on Scotland's economy.

We have been encouraged by recent support from the First Minister and the Minister for Transport and Planning to work with us in developing our transport agenda and by the Executive's apparent willingness to fund the strategic aspects of our transport proposals. Work is now under way to determine the technical case and relative strategic local split. We appreciate the opportunity to raise those matters with the committee, and will suggest a number of areas where your support would greatly assist us.

First, we must acknowledge the transport problems of Aberdeen and the north-east and the need for them to be addressed in the national economic interest. Secondly, we must recognise the need for upgrading the strategic road network in the north-east and the Executive's responsibility for doing so. Thirdly, we must indicate support for the regional transport strategy as set out in the NESTRANS proposals for the modern transport system and detailed in the councils' local transport strategies. Fourthly, we must encourage the Executive to continue and enhance its national travel awareness campaigns by working closely with regional interests such as NESTRANS. Finally, we must call for significantly increased funding for transport in Scotland to meet the needs of regional transport strategies as demonstrated in Aberdeen and the north-east. We are certainly seeking a larger financial cake for transport in Scotland and a larger slice of that cake for the north-east.

Thank you for hearing our case. My colleagues and I are happy to take any questions that the committee might have.

The Convener: Thank you, Councillor Ironside. Your case was well argued and supports your previous written submissions. I concur with your point that it is important to Scotland's interests that the north-east's economy remains vital, and recognise the absolute need to improve that vitality, sustain growth and anchor many of the remaining companies in the area. I will not say too much now, because I know that members have a very clear interest in this matter.

Elaine Thomson (Aberdeen North) (Lab): On behalf of the other north-east MSPs, I welcome the Transport and the Environment Committee on its first visit to Aberdeen. The committee has shown its commitment to hearing the case by finally meeting in the city after its previous attempts to do so were postponed because of the weather and general elections.

Councillor Ironside has made a very good case for investment in the transport infrastructure in the north-east, and I concur with many of his comments. Do the witnesses agree that partnerships are one of the key things that we have to build to advance the case for further investment in the transport infrastructure in Aberdeen? Do they agree that those partnerships must be not only between the different local authorities and agencies, building on the work of NESTRANS, but with the Scottish Executive?

I know that a civil servant from the Scottish Executive is liaising regularly with NESTRANS and that Aberdeen has now been plugged in to the transport model for Scotland to help to build the strategic case for investment in Aberdeen and the north-east's transport infrastructure.

Do the witnesses agree with my comments? How are partnerships beginning to work out and what benefits are showing?

11:00

Amanda Harvie (Aberdeen and Grampian Chamber of Commerce): I am very pleased to comment on that from the business perspective. The great strides that we have taken over the past year in building a relationship with the Scottish Executive have been welcomed. We welcome the fact that our partnership has regular meetings with senior officials in the Executive. The study that you mentioned will be important in helping to underpin our case for support and funding from the Scottish Executive for the modern transport system.

Partnership is important, but I would like to give the business community's perspective. I confirm that, although our recent surveys have shown that there is huge support from the business community for the modern transport system, that support is fragile because we have not seen a balanced delivery of our integrated modern

transport system strategy. That is a result of the way in which funding is being implemented.

At the moment, businesses feel that there are constraints on the transport system in the north-east. Businesses perceive that the packages that have been put in place so far constrain further the movements of goods and freight. It is critical that the partnership is integrated and that the Executive implements its funding of our initiatives in an integrated way so that we can deliver some of the major schemes that will enable freight and goods to move around the area effectively.

Elaine Thomson: I recognise the needs of businesses in Aberdeen and the north-east, which is one of the most economically vibrant parts of Scotland. Do you agree that all modes of transport are as important as road transport in aiding and supporting business? Do you agree that air, sea and rail links are equally crucial and that we must support all those different modes?

Business needs are obviously important. However, one third of the population of Aberdeen does not have access to car transport. I would be interested to hear how the strategy that is being rolled out will support the needs of those people as well as the needs of car users. I understand that innovative measures for bus transport are being introduced.

Councillor Alison McInnes (Aberdeenshire Council): I will respond first to your point about partnership. NESTRANS is a unique public-private partnership, which follows on from the success of the north-east of Scotland economic development partnership. The connections go very deep. We have a web of interconnectivity between Aberdeenshire Council, Aberdeen City Council, Aberdeen Chamber of Commerce and Scottish Enterprise Grampian. We take those interconnections seriously; we take them through into other policies.

We have recently jointly produced and formalised a structure plan, which implements the ideas that are in the transport strategy and starts to see them coming through in terms of land use. The partnership is successful and shows that we mean business in trying to deliver.

As Ms Thomson said, we need the extra member of the partnership; we need the Scottish Executive alongside us. Although we welcome the tentative steps that the Executive has taken towards joining us at the table, we really need increased funding. So far, the Executive has given us kind words of support on our approach. We need money to follow that up. We have been held up as an example to the rest of Scotland as a way to work. We have done all the right things; we have produced an integrated transport strategy; we have met and talked; and we have researched

what we are asking for. We need the commitment behind that.

As a result of the inherent difficulties that are caused by the fact that we do not have an adequate rail network on which to build, our transport strategy might fairly be perceived as road based, but it is not car based. Our strategy allows us to recognise that 30 per cent of the population does not have access to that form of transport. The western peripheral route will enable us to prioritise road use in the city centre and encourage better use of public transport and more pedestrian access.

Councillor Ironside: As well as our partnerships with NESTRANS and the Scottish Executive, we have partnerships with hospitals, universities and business groups to deliver travel plans. We have a bus quality partnership that has operated since 1998. It has led to the establishment of many of the park-and-ride schemes that you have seen and to real-time transport facilities. There is also a freight quality partnership. We appreciate that the strategy should not simply be car based—that is why we are approaching the £247 million modern transportation strategy as we are. We also appreciate that, unless we can secure funding, we will meet difficulties.

We have had some successes. The Bridge of Don park-and-ride scheme has carried more than 1 million passengers since October 1994 and the new park-and-ride scheme that was opened at Kingswells is attracting around 1,000 passengers a week. That is great news. Such schemes are taking around 800 cars per day off the road.

Brian Adam (North-East Scotland) (SNP): I welcome the fact that you are approaching the strategy in terms of partnerships and the fact that you are emphasising the importance of having an integrated system.

You said that you are seeking significant central funding. Given the history of the project and the funding mechanisms, what part of the funding do you think is the responsibility of the Scottish Executive and what part is the responsibility of the other partners? I am asking that question in the context of issues such as the bypass and the congestion charging, which is not applied anywhere else in the country.

What will be the impact of the western peripheral route on access to and the availability of commercial and industrial land?

Councillor Ironside: As I pointed out earlier, it is unfair to the people in this area to compare our proposals to something like the Glasgow single road network, which was introduced for around £250 million. For slightly less than that, the north-east could introduce the modern transportation

strategy. It is unfair to expect people in one part of the country to pay for the kind of scheme that people in another part of the country are not paying for.

It is difficult to attract alternative funding to this area in this atmosphere of underfunding. The balance has to be right before we can find other ways of funding the strategy. The partners would all want to contribute but the sum of money involved is beyond their reach.

The western peripheral route would immediately be trunked, which would mean that congestion charging could not be operated on it anyway. There is an element of unfairness there.

Ed Gillespie (Scottish Enterprise Grampian): This community has done everything that has been asked of it in relation to partnership. Partnerships here are strong, strategic and integrated. They have worked. We did not reach that position easily, but that is where we are. In relation to partnership, we have done everything that has been asked of us and now it is payback time.

The latest figures that we have are two years out of date, but the current congestion is costing businesses at least £100 million a year. That is based on traffic models: we have studied the time lost and the number of vehicles travelling through the city. It has a significant economic impact on an area that, as Councillor Ironside suggests, develops a large slug of the GDP of Scotland and the United Kingdom. If we had the western peripheral route, it would open up economic development opportunities. There is a desperate shortage of land in this part of the world.

As an economic development agency, we would hope to have a year to a year-and-a-half's supply of developable land in hand, but let me tell you, ladies and gentlemen, that we have less than three months' worth. The road-based system and the surrounding integrated transport network would make a huge contribution to the on-going need to keep our economy vibrant, as the key industry—oil and gas—goes into decline.

Maureen Macmillan (Highlands and Islands) (Lab): I was the only member of the Transport and the Environment Committee who actually made it here in that blizzard. I got a phone call somewhere between Elgin and Aberdeen to say that the committee meeting had been cancelled, which meant that I had to wait three quarters of an hour at Aberdeen railway station for a train to take me down to Edinburgh, having started the day in Inverness. I am very pleased to be here—and to be in the warm.

I want to ask about traffic flows in and around the city. We have received submissions from people who do not think that the western

peripheral road is a good idea. I have to say that my feeling is that people come to Aberdeen—they do not want to bypass it. Perhaps you can tell me otherwise. I wonder whether the congestion is caused by people who are coming into the city, rather than by people who want to go round the city. We were at the harbour this morning where we talked about the need for freight traffic to come into the city and the harbour and how that would be managed.

What is the balance between passenger cars and freight and between private cars and public transport in and around the city? Who is causing the congestion? There are other steps that can be taken—freight can be transferred to rail or sea and people can be encouraged to take a bus rather than a car for short journeys.

Ed Gillespie: You make some valid points. We need links into the city, the harbour and city-based industry. That is part of the modelling that we are doing to substantiate the integrated programme. However, it would be wrong to forget the indigenous key industries that surround the city and are part of the economic environment of the north-east of Scotland. Farming and fishing are good examples, as are oil production facilities outwith the city. Many of the industries in the north-east are increasingly globalising. The tricks that we have learned—the intellectual property that has come out of the hard work that has been done in the North sea—are now being sent to other parts of the globe. It does not all leave from Aberdeen harbour. Much of it comes from the north and has to go through the city to get to the south. That causes congestion. That explains why, as I said, businesses are losing £100 million a year.

There is freight—food and fish—congestion, as the traffic comes from the north on its way down south to supply markets in middle England and London. There is international congestion—containers going to Azerbaijan and other oil centres, produced, engineered and manufactured in Aberdeen. Some of that work is done in the north of the city. People are losing 45 or 50 minutes going through the city, which costs £15 or £20 a tonne. That is significant in cost-constrained world markets.

Maureen Macmillan is right to say that traffic into the city is a problem, but it is also traffic wanting to go round the city. It would be wrong to give the committee the impression that we are proposing a road-based system: we want an integrated transport system that caters for the needs of the city and the important economic hinterland of the city.

Amanda Harvie: Ed Gillespie has mentioned the international connections of our economy and the critical importance of ensuring that we root

businesses here and give them a base through which they can serve new, growing and diversifying international markets. That is critical for the future of oil and gas, the whole of the economy here and the contribution that we make to the Scottish economy.

Distance to market is an issue. We must ensure that we have as many strategic international connections as possible, but do not restrict business from moving around the area. The cost to business is real and we are hearing from a growing number of businesses—footloose businesses that had the opportunity to locate elsewhere—that they are seriously concerned about the cost base of being located here.

Transport is therefore a strategic issue not just in and around Aberdeen, but for the wider area and for the whole Scottish economy. We do not want the income generators of the future, which will power the Scottish economy and build on oil and gas and other successes, to feel that they must move elsewhere—out of this region and out of Scotland—because of the cost of distance to market and local constraints. That is a critical issue.

I want to comment on whether £247 million is a fair share for the area. Taking into account the £180 billion spend for England over 10 years, some rough calculations show that £247 million is much less than half of an equitable rate of spend and that aspiring to a £1 billion spend here over 15 years would be realistic and proportionate. We regard the £247 million as a baseline and have aspirations to do more. As a basic minimum—if we are to root our businesses here and ensure the strength of the economy for the future—we must be able to demonstrate that the funding to deliver the strategy is in place.

11:15

The Convener: A lot of members wish to ask questions. After inviting Councillor McInnes to speak, I will move on to another member.

Councillor McInnes: I would like to bring an Aberdeenshire perspective to Maureen Macmillan's question.

Not all the transport is moving into the city and staying there. There is definitely a significant movement, particularly of freight, around the city. Transport would like to go around the city, but at the moment it must go right through it. There is congestion all day. If you travel on the trunk routes within the city, you will notice that freight transport is the main cause of the congestion. That is an unfair disadvantage for our businesses—particularly those in Peterhead, in the north-east, where the largest fish ports are. A great volume of traffic moves from there and has to funnel through the city.

Although people will want to access transport nodes within the city—the railway, the airport and the harbour—a lot of traffic has no real need to be within the city and could go round it. I stress that the western peripheral route is not only to be a bypass—it is to be a distributor road and to serve all the park-and-rides. The map that we have presented shows that we intend to arrange park-and-rides strategically, all around the city. That will encourage more sustainable transport for those who want to come into the city.

I hope that that answers some of your concerns.

Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD): Len Ironside said that successive Governments have failed to invest in transport infrastructure in the north-east, which is simply not fit for its purpose. The make-up of the team before us is indicative of the partnership approach that is taken by everybody in the north-east. Ed Gillespie said, “We have done everything that has been asked of us.”

Do you believe that it is time to put up—that it is now time for action—and that the Transport and the Environment Committee should resist the temptation just to utter warm words on the subject? Do you agree that the committee has a real opportunity and that it should progress the issue in the Scottish Parliament by producing a report that backs the petition—which is from everybody in the north-east, it would seem—and calls for a full debate in the Parliament? That would raise support for the transport infrastructure project from across Scotland, not just from the north-east. That is one of the committee’s options.

Another option—which is a dangerous temptation for the committee—is not to comment on a specific funding project. After you have given evidence, the committee will decide on that. Does the team feel that it is now time to put up and that the committee should produce a report for the Parliament?

The Convener: Thanks for your steer, Mr Rumbles. Who wants to take that one?

Maureen Macmillan: That was not exactly subtle.

Ed Gillespie: “Yes” is our one-word answer—please.

Councillor McInnes: I urge the committee to recognise that this is a strategic issue for Scotland, not a little local problem.

The Convener: I think that you will have heard that view from my prerecords for the media this morning, even before you gave evidence. You have made a good case and we have taken an interest in the matter. We will take on board the points that Mike Rumbles and others have made about how we should develop the matter. My

goodness, who is next? I invite Bristow Muldoon to speak.

Bristow Muldoon (Livingston) (Lab): I congratulate all the partners on their presentation and on much of the literature that they have given us today and in advance of the meeting. The way in which you are trying to gain support for the transport initiatives that you have developed is a model for people in other areas who are pressing for additional investment.

I endorse the comments made by the convener and others. The committee recognises the broader strategic importance of ensuring that all our cities continue to develop economically. We recognise the success that Aberdeen has enjoyed and the need for the city to diversify for the future. That is taken as read.

I will return to some funding issues. The case for funding is well made, but you must be aware that the Executive and the Parliament receive many funding demands, many of which are supported by well-made cases. I want to tease out from you the extent to which the Executive and the Parliament must support the overall £247 million package. I note that a contribution of £70 million will be made from existing budgets.

From Brian Adam’s comments, I note that no other city in Britain has congestion charges. However, as you know, several cities are investigating the idea, including Edinburgh, which will adopt charges shortly. I also note that people who have been surveyed have shown some support for the investigation of such charges. I know that they are not part of your present proposals, but what work has been done on such an approach and the contribution that it could make to the overall funding package?

Councillor Ironside: We say that the success of our area and its contribution to the economy should be recognised. If you take that on board, you must invest in success and not let the situation deteriorate. Aberdeen’s traffic problems are not comparable with those in Edinburgh or Glasgow. For example, we have a medieval bridge that vehicles must cross to reach the city. In this day and age, that is nonsense. An articulated vehicle cannot use it: it must go round and make all sorts of turns.

The partners involved are prepared to put money into the initiatives. We have already put much money into them and the Scottish Executive has recognised the case and put money towards the transport strategy, but a huge amount that goes beyond the means of the partners is required. We are prepared to consider any other funding that we can obtain, but it is difficult to do that in an atmosphere of total underfunding from the start. The Scottish Executive does not appear

to back the proposed schemes, and we want to win it over.

Ed Gillespie: We must repeat that the base case for us is that we need £247 million to take us where we need to be. After that, we can become aspirational about where we might be in the future. As Councillor Ironside said, people should consider Edinburgh without its bypass or Glasgow without its appropriate road system. Would either city then consider charging for what it had as distinct from what it did not have? The baseline is £247 million—an easy number to remember. Send the cheque to any of the four partners and we will get on with it.

The Convener: The benefit to members of being on a committee is that, although we try our best, we do not have control of a cheque book.

Ed Gillespie: I take the point, convener. My key point is that the partners are willing to look to the future in a more aspirational way and to be more creative. We start from a position that is way behind the eight ball, if I may use an Americanism.

Amanda Harvie: Bristow Muldoon mentioned the constraints on the Scottish Executive's budget. We would like more money to be prioritised strategically and spent on transport in Scotland. Top of the list should be investment in the north-east because of the substantial contribution that it makes to the economy of Scotland. Our GDP is far greater than the average in Scotland and, in relation to UK per capita figures, we are second only to the south-east of England. That demonstrates how critical it is for the Scottish economy that the economy of the north-east is able to grow.

Businesses in the north-east are aware of transport developments that are taking place outwith the UK in Europe. They compare Aberdeen with cities of a comparable size in which developments are taking place. For example, many European cities are developing light rail systems that have been constructed, no doubt, with government funding. Such systems seem to be attractive to the travelling public and make those destinations business friendly. We have an international economy and our footloose businesses are looking elsewhere because we do not compare well with other areas.

It is very important that we prioritise budget investment in this area. The M74 was, strategically, of critical importance to Scotland. We now need to look at our main economic generator. The north-east, which is the economic engine of Scotland, must be next.

The Convener: As a point of interest, we are discussing with the minister how she decides her spending priorities. We have taken evidence from her on the budget process and she is to come

back to us in order to allow us to examine more closely how she allocates resources in relation to priorities versus spend.

Councillor Ironside: I will add to the response to Bristow Muldoon's question. Although we do not have detailed figures on the financial aspects with us, we could provide them by the end of the meeting. Those figures have been submitted to the Scottish Executive and show the various levels of funding and the balance that must be found elsewhere.

Bristow Muldoon: The other question that I wanted to ask was on an issue that I believe Councillor Ironside referred to in his introduction. Could you elaborate on the degree of success that Aberdeen and Aberdeenshire have had in relation to the public transport fund and whether the projects that have been successful are part of the £247 million plan?

Councillor Ironside: We have addressed that issue and are working on a revised bid to the PTF for local rail services between Aberdeen, Stonehaven and Inverurie. Progress on that bid has been delayed by the problems with the rail industry, but we are taking it seriously because it is an important factor in the transportation strategy.

That bid must fit in with another part of the service that must be improved: the Aberdeen-Inverness line. A detailed study into the costs and benefits of an improved local rail service is being undertaken, so we should also have facts and figures on that line.

Councillor McInnes: Aberdeenshire has also been successful with PTF bids. We have opened Scotland's first inter-urban park-and-ride scheme, in Ellon, which is about 20 miles outside Aberdeen. The use of that facility is beginning to grow.

All the investment that we are making in the north-east reflects the local transport strategy which, in turn, reflects our aspirations for a modern transport system. All our work builds towards that strategy. When we submit bids, we try to reflect where we are trying to go. The issue for us is the imbalance—we are being successful with some of our projects, but they are based on public transport and we must recognise that Government spending cuts across the board. We want the Government to support an entire modern transport system, not just one side of such a system.

Amanda Harvie: Councillor McInnes started to make the point that I wanted to make. The committee should address the issue of challenge funding. It is hard for us to deliver our project in an integrated way if we have to apply for piecemeal funding for individual projects and if there is no overall commitment to the big capital projects that

will deliver that integration. It is also hard to demonstrate locally that we have an integrated strategy—there is a transport imbalance in the north-east.

11:30

Richard Lochhead (North-East Scotland) (SNP): I echo Elaine Thomson's comments and welcome the committee to Aberdeen. The meeting is a case of third time lucky. I congratulate the witnesses on their presentation. Many local regional MSPs have seen the partnership working during the past couple of years. It is successful and the witnesses put their case across well. More and more people have contacted local regional MSPs about transport in north-east Scotland. People from businesses and members of the public find spending an hour trying to get across a relatively small city to get to work extremely frustrating. The issue is increasingly important and it is of public concern.

I emphasise the importance of the wider regional issue of agricultural and fishing traffic that passes through Aberdeen. For example, fish must be transported from Peterhead and Fraserburgh to the market south of the border on time and while it is fresh. That is an important business issue.

There is a feeling of injustice in the region. The oil and gas industry—which is the reason for the region's economic success—is a primary reason for the congestion. To generate wealth, the region makes the sacrifice of having a transport system that is cracking at the seams.

My question is about population growth in the region. Throughout the 1980s and 1990s, the population has grown, particularly in Aberdeenshire. What are the implications of the population changes in Grampian during the past 10 or 20 years for the subject that we are discussing today? I think that the transport infrastructure has not increased at the same rate as the population, which is one reason why the problems are so difficult.

Councillor Ironside: The population of the north-east is around 500,000 and increasing—people come for the quality of life and the jobs that are created here. That is spoiled by the fact that the transport infrastructure is difficult. The success of the area means that we not only need a transport system that is the same as that anywhere else, but one that is better. The location demands that.

We continue to invest in success locally. We hope that that success will be encouraged nationally and that more people and jobs will come to the area. We must address the difficulties of the transportation structure, which are a barrier or inhibitor to people coming to, and investing in, the area.

Ed Gillespie: I am thinking about money and the issues that Richard Lochhead rightly raised. From a hard-nosed point of view, we are behind. We have made that case adequately. We sit before the committee as a partnership and we are discussing matters in an integrated, strategic way. We want to move from being behind to being ahead. We contribute significantly to the gross national product and we need some help.

Des McNulty (Clydebank and Milngavie) (Lab): At one level, the witnesses are right to talk about an integrated policy, which is critical if we want to bring every issue into play, but real politics is about spending priorities. It is not clear from their evidence what their priorities are in the different aspects of the strategy. Will they set out those priorities a bit more clearly?

I want to hear from the councils, given that they have a statutory responsibility for managing, maintaining and upgrading the transport infrastructure. What has the pattern of their expenditure been relative to other priorities in the past five years? Have they put their money where their mouths are and what is the evidence for that? What have their priorities been within that?

Will the witnesses give some comparative information on traffic flows? They said that there is a lot of congestion in Aberdeen. I have no doubt that they could show us lots of traffic jams, but I could show them a lot of traffic jams in west central Scotland. Is there objective information that shows relative congestion and where the pinchpoints are? How is that information fed into the witnesses' priorities?

Ed Gillespie: In the past two years, we have completed a number of traffic flow study models. They are available to the committee—that is not a problem—and answer its questions on traffic flow in detail. In addition, as Scottish Executive funding has supported us, we have started to model from a strategic point of view, using the national model. That work is on-going.

There is historical data funded by the partners and national data, upon which work funded by the Executive is being done. I should be happy to deliver to the committee information that deals in detail with the question that was asked. That would be better than covering the issue at this meeting.

I have a copy of the document on priorities that we sent to the committee. Option 1 is maintenance of the status quo, which the partnership does not think is the way forward. The document then sets out the priorities for what needs to happen. If the committee wants to consider the 10 priorities in detail, I am sure that the partners will be happy to provide the committee with information later.

Des McNulty: I looked at the documents and

the related local transport strategy, but found difficulty in identifying where the priorities lie. The different elements of road, rail or other strategic funding projects must be put into a clear, priority order for us.

The Convener: Ed Gillespie made the point that we cannot discuss that as we do not have enough time; however, further correspondence on the issue would be useful.

Councillor McInnes: We can give a list of short-term, medium-term and long-term projects to the committee.

Do we put our money where our mouth is? Wherever possible, we certainly do. All significant congestion problems are on the trunk roads, but we cannot fund improvements to deal with such problems.

Amanda Harvie: Each element of our integrated strategy has a time line, but it is hard to progress major infrastructure projects unless we know that we have funding commitments to deliver them. We can supply information to the committee on how and when projects will be delivered—the critical path, if you like. To meet a critical path for an integrated strategy requires integrated funding—we put that issue before the committee.

Des McNulty: Clear information on the outcome and particular benefit of a specific investment will be increasingly important in validating bids for transport funding. Information that clearly identifies the outcomes that can be expected from a specific investment would strengthen your case for projects relative to those in other parts of the country.

Ed Gillespie: The then First Minister made funding available to us to start the modelling process. We got on with that work immediately. It is not complete, but it soon will be. We can give the committee information on that.

Amanda Harvie: I have a point on strategy and mindsets. In Scotland, we must aim to deliver an exemplary 21st century transport infrastructure across the board to make all Scotland globally competitive. We must prioritise in the area in question because of our international connections and the fragile balance in respect of the future growth of our economy.

Transportation consistently polls as the top issue that affects businesses throughout north-east Scotland. The issue is on the radar screen and we must address it. We must get into a mindset that aims for exemplary status for Scotland and for the north-east in particular.

Councillor Ironside: We talk about investment in this part of the world not just for the sake of local jobs. Such investment affects the whole UK economy. A large number of jobs in the central

belt and the north of England depend on the oil and gas sector and on people who come to work offshore, for example. Investment is crucial and transport is the biggest issue for us.

Councillor McInnes: The modern transport strategy that we have outlined, at £247 million, is a well-researched and well thought-through project. We have already carried out two studies—the Oscar Faber study, which was undertaken jointly with the Scottish Executive, and the Halcrow Fox study. There is some sound research behind the project and, as Ed Gillespie has pointed out, we are continuing to progress the technical case. Perhaps we could forward that information to you.

The Convener: We are pressed for time. I ask the witnesses to take Nora Radcliffe's and John Scott's questions together.

Nora Radcliffe (Gordon) (LD): I say at the outset that you have an unassailable case. I have argued that there has been under-investment in the north-east for years. Having said that, I shall play devil's advocate and give you the chance to address a couple of the criticisms of the western peripheral route.

The first is the concern about the loss of green belt within the line of the route. The second is the argument that building roads generates traffic. To counter that argument, can you talk a little about the displacement of heavy traffic on to inadequate country roads that is currently taking place? Near the city, traffic is being directed across Kingswells and, slightly further out, through Netherley, across the Milltimber bridge and through Culter, on totally unsuitable country roads.

Can you expand on how the modern transport system will promote better travel options for the hinterland that feeds into and supports the city?

John Scott (Ayr) (Con): I also think that you have made the case well for this project, and I welcome the intentions behind it. There is, to use Nora Radcliffe's word, an unassailable case for the development of business in the area. My question was going to be about the loss of green belt, too. What consideration have you given to that?

The Convener: Who will lead on that issue?

Amanda Harvie: There are many issues there. I advise Alison McInnes to comment on them first, and I shall add my comments afterwards.

Councillor McInnes: Our structure plan identifies the line of the western peripheral route as a way forward; however, it does not regard it as an excuse to free up all the land around that route. We have striven hard to develop sustainable communities throughout the north-east. The structure plan relates to the city of Aberdeen and Aberdeenshire, and we have tried to encourage

industrial development in all our communities in the north-east rather than focus purely on the city. As a long-term way of tackling congestion problems, there will be some loss of green-belt land as the new road is built. That issue will have to be tackled as we go through the planning process. The case will be given adequate consideration as the plan undergoes a public inquiry.

Amanda Harvie: Everybody wants to comment, as those two questions raise many issues; therefore, I shall comment only on the point that Nora Radcliffe made about the displacement of heavy traffic on to inadequate country roads. That is what is happening. Some committee members live in areas where the use of rail is an option; however, we do not have a rail infrastructure in our hinterland. I invite you to take a look at the rail map when you leave today's meeting—you will see what I mean. We do not have a fallback position.

It is because freight traffic has to use those completely inadequate back roads that we need a western peripheral road around Aberdeen. We also need it to enable strategic development, to attract further investment to the area. I would argue that the concept of green belt being destroyed is simply not on the cards; we are talking about strategic development for the whole region, which will attract investment to the area. A road is an important part of that, and we cannot constrain the future development of the area and of the whole of the Scottish economy because of concern about the building of that road. The approach to it will be strategic; its development will be prioritised and strategic; and the sort of business that we have in the area is hi-tech, rather than heavy industry.

Ed Gillespie: I have a quick comment to make on the green-belt issue. What we have been trying to project this morning is an integrated, strategic plan. That means that we will have to adhere to all the democratic constraints when we consider the land that we would consume for the road. This is not a one-off plan for a road; it is a strategic integrated plan.

When we get the road—and note my positive language; I might be on a Zimmer by the time I can drive round it, but I am confident that I will get the road some day—it will be a release for city traffic and will give people other options, such as cycling or walking, which are just not safe at the moment. We have to be strategic and we have to integrate our plans. The plan is formulated and nothing will be done unless it is done on the basis of community plans and the appropriate democratic processes.

11:45

Councillor McInnes: We consulted widely on our modern transport strategy last year. We had a good response. Perhaps surprisingly, 75 per cent of those who responded approved of the construction plans for the western peripheral route in particular. It is unusual to gain such support for a road scheme. That underlines the fact that the people of the north-east understand the strategic significance of the route and do not regard it as just another road.

Amanda Harvie: Among businesses, support was 85 per cent. Aberdeen and Grampian is an area that wants to grow; it does not want to be constrained and to decline. We have to invest in infrastructure, otherwise the success scenario will not be delivered. We are in a position of resurrection economics, and 85 per cent of businesses acknowledge that we need improved infrastructure. I repeat, 85 per cent of businesses support the western peripheral road.

The Convener: Colleagues, clearly we will receive new information on the matter. Detailed questions will arise out of our discussions this morning, and we will get detailed responses from Ed Gillespie and others to the questions that we have put to them. We will have to assimilate that information and study the *Official Report* of this meeting. I suggest that we await that further information. Callum Thomson will get that information to members, after which we can discuss the matter further. I understand that people want instant answers, but I would rather reflect at leisure than repent at leisure. Do members agree that we should not discuss our options on the petition just now, but await further information?

Members indicated agreement.

The Convener: Mike Rumbles wants to comment. Will it be as subtle as your previous juggernaut on a single-track road?

Mr Rumbles: Would you ask the clerks to give notice to non-members of the committee of when the committee will discuss its options, so that we can attend?

The Convener: Certainly.

I would like to thank the witnesses very much. There has been passion, logic, sense and good submissions and discussions—although subtlety sometimes went amiss. The witnesses were quite correct to represent the views of their communities so strongly. I have certainly enjoyed this session.

Subordinate Legislation

Fossil Fuel Levy (Scotland) Amendment Regulations 2001 (SSI 2001/335)

The Convener: Under agenda item 4, we have two instruments to consider under the negative procedure. The first is SSI 335, the Fossil Fuel Levy (Scotland) Amendment Regulations 2001. The instrument was laid on 2 October 2001. An Executive note accompanies the regulations, as does a letter to the Presiding Officer explaining the reasons for the breach of the 21-day rule in the laying of the instrument. The time for parliamentary action expires on 22 November and we have to report by 19 November. The Subordinate Legislation Committee considered the instrument at its meeting on 23 October and agreed that the attention of the Parliament need not be drawn to it. Do members agree that this committee has no recommendation to make?

Members indicated agreement.

Wildlife and Countryside Act 1981 (Amendment) (Scotland) Regulations 2001 (SSI 2001/337)

The Convener: The second instrument is SSI 337, the Wildlife and Countryside Act 1981 (Amendment) (Scotland) Regulations 2001. The instrument was laid on 2 October. An Executive note accompanies the regulations, as do extracts from relevant European Union legislation. The time for parliamentary action expires on 22 November. This committee is required to report on the instrument by 19 November. The Subordinate Legislation Committee considered the instrument on 23 October and determined that the attention of the Parliament need not be drawn to the instrument.

The purpose of the instrument is to aid conservation of capercaillie by introducing a statutory ban on hunting. As members know, the committee has already considered that issue, when we discussed a petition on reversing the decline in capercaillie numbers. The committee has expressed support in the past for measures that safeguard the capercaillie.

Nora Radcliffe: I welcome the instrument very much. It is right that this magnificent bird should have enhanced protection. The problem is how enforceable that protection is. I am pleased by the Executive's assurance that it will accelerate its consideration of legislation on wildlife and for crime against wildlife. Our capacity to enforce legislation for such crime is woefully inadequate and urgently needs upgrading.

John Scott: I welcome the legislation, which is long overdue. The committee has previously

considered fencing, which causes so many problems to capercaillies. However, a simple solution is to put reflective strips every 15ft along fences, which would stop or much reduce the problem. Has that solution been considered?

The Convener: It is funny that you should say that. I visited an RSPB reserve that is near Aviemore. The capercaillie is described as a daft bird and we had to help a daft bird at that reserve.

John Scott's suggestion will be in the *Official Report* and we will consider that issue at a later meeting.

Maureen Macmillan: I, too, welcome the legislation. I have seen a capercaillie once only, beside the River Orchy in Glen Orchy. They are magnificent birds. A thousand only are left and it would be a shame if they were to be lost to us.

The Convener: Supportive comments have been made. Do members agree that we have no recommendation to make on the instrument?

Members indicated agreement.

Aquaculture Inquiry

The Convener: Our next item is consideration of a report by the committee's reporters—Robin Harper and Maureen Macmillan—on our inquiry into aquaculture. The report outlines the work undertaken by the reporters since the summer recess. Members have also been given copies of a letter from the Deputy Minister for Environment and Rural Development that seeks the committee's response to questions about the development of the strategy for aquaculture.

I thank the reporters for their hard work. Robin Harper could not make today's meeting, but is happy for the committee to consider the report.

Maureen Macmillan: Robin Harper has been particularly busy on the report. I was on holiday during the October break and Robin undertook many visits during that time. However, my researcher, Hugh Raven, stood in for me at the Dunstaffnage meeting. Since then, we have had meetings at the Parliament with bodies such as Scottish Quality Salmon and Scottish Natural Heritage. We will be having more such meetings.

Members can see that the same points come up constantly in the report. We are getting a handle on the pinchpoints—that seems to be the in-phrase nowadays—where the salmon industry interfaces with others, such as wild fisheries and the shellfish industry.

Members have been able to consider the report and we have previously discussed the problems. I am happy to answer questions.

The Convener: The report is extensive, which is a credit to the reporters. As Maureen Macmillan said, there are common themes in the report which I am sure we will address in our evidence-taking sessions and further discussions.

We must decide how we should respond to the deputy minister's letter. We will take evidence on the regulatory aspects of aquaculture later this month, and on the draft strategy once it is developed in the new year. I suggest that the committee take careful note of the minister's questions, but I think that it would be best to hold off giving a response until we get evidence and have further discussion. Do members concur with that view? Does that seem sensible?

Bristow Muldoon: As you are aware, for a period during the summer I acted as a reporter on aquaculture. I also did so during the recent Scotland week 2001 in Brussels, where I attended a seminar on diffuse pollution—the part about aquaculture was interesting. I will report on that in due course to the committee. An area that I highlight for continuing investigation by the reporters is the impact that diffuse pollution has on issues associated with problems in aquaculture.

The Convener: We will have adequate time during evidence taking and report writing to ensure that that matter is considered in our report. If there are no other comments, I advise members that the next stage in the inquiry is to hold evidence-taking sessions on the regulatory aspects of aquaculture.

We have agreed to meet in private for our next item, which is to discuss possible witnesses.

Des McNulty: I am a wee bit concerned that we might get drawn into an unfocused inquiry on aquaculture. There are so many different things that we could look at that we run the risk of doing everything badly, rather than doing a specific thing well. Before we decide on witnesses and so on, perhaps the clerks and the committee should consider the matter further. We need to be much clearer about what is achievable and highlight, perhaps in consultation with the key agencies, the issues that our contribution would best be geared towards. Otherwise we will try to take on everything and are unlikely to succeed.

The Convener: That has been our collective fear from the start of the process, when the Executive did not agree to carry out the work that we thought it should.

Aquaculture is an important industry and employer and there are important environmental issues. We cannot mess about. We have an effect on people's lives, livelihoods and the environment. We need to remain focused.

John Scott: What progress has been made on the appointment of a research co-ordinator?

The Convener: I will ask the clerk to report back on that.

Callum Thomson (Clerk): The convener and the reporters had a meeting with Executive officials a few weeks ago. We are currently waiting for a formal response from the minister and would expect to receive that in the next week or so.

John Scott: Have you have an indication?

The Convener: No. I have also spoken to the minister on the matter and received no indication that I could report to the committee. Maureen Macmillan, Robin Harper and I attended the meeting. We gave the Executive a clear steer on what we expect to happen. We are awaiting the response.

John Scott: Perhaps we should make the point to the minister again that time is of the essence. If the inquiry is to proceed, it must proceed quickly. Otherwise we are in real danger of not being able to do all that we might in the time available.

The Convener: Okay. Taking Des McNulty's points on board, I believe that it is clear that we must consider the matter further.

11:57

Meeting continued in private.

12:46

On resuming—

12:10

Meeting adjourned.

Water Industry (Scotland) Bill: Stage 1

The Convener: Good afternoon, ladies and gentlemen. I welcome back the press and public to this meeting of the Transport and the Environment Committee. This afternoon we will continue with stage 1 consideration of the Water Industry (Scotland) Bill.

I welcome again Alan Sutherland, who is the water industry commissioner for Scotland. Today Mr Sutherland is accompanied by John Simpson, head of comparative efficiency in the office of the water industry commissioner for Scotland. In accordance with our previous practice, witnesses are free to make some opening remarks before we proceed to questions from members.

Alan Sutherland (Water Industry Commissioner for Scotland): I would like to make a very brief statement. From the outset, I want to make it clear that my office and I endorse the creation of Scottish Water and believe that that is very much in customers' interests. The fact that Scottish Water will be in the public sector and the bill's stress on commercial viability mean that a better deal will be available to all customers.

We have examined the proposals in five ways, all of which fall within fairly obvious business analysis parameters. We have considered them, first, from a customer perspective; secondly, from a cost perspective; thirdly, from a competition perspective; fourthly, from a compliance perspective; and finally, in terms of competence—what the organisation is good at.

On the customer side, we believe that service levels should increase and we maintain categorically that under the new arrangement prices for all domestic customers throughout Scotland will be lower than they otherwise would have been. We believe that there will be more stability and predictability in pricing throughout Scotland and that regulatory scrutiny of the service levels that are delivered to customers will continue to be necessary. We intend to carry out that scrutiny.

On the cost side, we believe that the single authority will be better positioned to deliver efficiencies, given more focused management and the absence of artificial boundaries drawn on a map that do not reflect the economics of the industry. We believe that there will be scale economies in the procurement of capital projects and other services and that a saving dividend will come with merging the head offices. We believe

that there can be scope economies with better use of existing resources. I emphasise our belief that regulatory scrutiny will have to continue. My office and I intend to harry the authority to deliver value for money for customers.

On a competition parameter, we believe that size matters, and note the evidence that the committee has received from the Office of Water Services. We do not believe that its position and my position in saying that size matters are mutually exclusive. Cost and customer issues are being addressed, which will ensure that Scottish Water is in a better competitive position. The lack of artificial boundaries will mean that competitors cannot play off one authority against another.

On compliance, we believe that the industry in Scotland, as a single entity, can be made more sustainable. We believe that a properly funded water industry will improve its compliance in public health and in environmental performance. We intend to work closely with the other regulators to ensure that that happens.

On the general positioning, competencies and strength of the organisation, we believe that Scottish Water will allow a strengthened management team to be developed. We believe that there can be a more focused, better managed asset base. Let us be clear: that asset base would cost more than £20 billion to replace in today's money. We believe that there can be a much more focused understanding and addressing of customers' needs and expectations.

In summary, we believe that lower prices now and in the future will result from the establishment of Scottish Water; that customer service will be better; and that the water industry will be more sustainable in relation to the environment, public health and finance.

The Convener: Thank you for those comprehensive opening remarks. We will wish to pursue some of the issues that you have raised.

Des McNulty: We took evidence a couple of weeks ago from the chairman designate of Scottish Water, who was talking about a vesting date of April 2002. Do you believe that that is realistic, Mr Sutherland? What are the key stages in the process that we should identify to ensure that the vesting date will be met according to plan?

Alan Sutherland: The vesting date is really a matter for the Scottish Executive, the Parliament and the management team. I do not think that we have a locus in that. I think that the date is realistic and can be achieved. A merger of an organisation could be completed in the same time. If we were to do a critical path analysis, the issues on the critical path are the legislative and scrutiny issues that you in the Parliament and the Executive will want to consider.

Des McNulty: So you do not envisage any operational barriers to achieving that.

Alan Sutherland: I am not an operational expert in the water industry, but I am not aware of any.

Des McNulty: Your office has existed for only two years. Do you believe that you have the expertise and resources to oversee the restructuring of the water industry in Scotland?

Alan Sutherland: I think that we are well on the way to having the necessary systems and the right quality of person in our organisation to ensure that monitoring is effective and rigorous. I do not think that the organisation is perfect, but I do not think that any organisation is ever perfect. You could ask me the same question in several years' time, and I would probably still answer that the organisation could be made better.

We certainly have the information systems and the data collection mechanisms in place to allow us to be confident that we know what is happening in the water authorities and, in future, in the single authority. We will continue to be as rigorous as we have been in analysing the industry and pressing for improvement.

Des McNulty: Until now, you have been able to benchmark the water companies in Scotland against each other. As we move towards a single water company, what comparators will you use for benchmarking and how will you set targets for Scottish Water?

Alan Sutherland: I think that we talked about that when I appeared before the committee previously. Comparing one inefficient organisation with another inefficient organisation will not give one much insight. One has to compare oneself with the best. The best—whether we like it or not—are located south of the border. Through the information that we collect, which is entirely consistent with the information that Ofwat collects, we have an opportunity to make rigorous comparisons with England and Wales on a demonstrably fair basis. The result shows that the Scottish industry needs to improve.

I am not losing anything through the loss of a couple of potential comparators. I am actually gaining because, as Scottish Water gets more efficient—it will do so more quickly than the three authorities could—the comparisons with England and Wales will become much clearer. As Scottish Water becomes more commercial, the comparison with England and Wales will become more valid.

Nora Radcliffe: You have stated:

"Independence to engage in commercial ventures outside their core business should only be given to the authorities when they are clearly delivering value for money to their existing customer base."

The bill would give greater freedom to the

proposed new authority than you called for. What is your view on that?

Alan Sutherland: I am not a lawyer, but I imagine that, if I were to try to define in primary legislation a set of things that Scottish Water could or could not do, it would be difficult to frame that correctly for what might happen in the next year or 10 years. I suspect that the Parliament has better things to do with its time than to keep amending primary legislation.

That is not inconsistent with what I have called for and believe strongly: that any exercise of commercial powers must be rigorously controlled by the Executive and the Parliament. Scottish Water should have clear guidance to ensure that its powers are used properly. We have carried out extensive analysis of the attempts at diversification by the water and sewerage industry south of the border. That analysis suggests that, in many cases, those attempts at diversification have not been successful. It is important that, through proper regulatory scrutiny, we do not allow that to happen in Scotland. In Scotland, those who would lose out would not be shareholders but customers.

Nora Radcliffe: In your opening remarks, you said that Ofwat has indicated that larger water and sewerage providers are not necessarily more efficient than smaller ones. Will you expand on that?

Alan Sutherland: Size matters. It is clearly cheaper to have one head office for a slightly larger organisation than it is to have three smaller head offices that all need finance directors, human resources directors and other staff. There are economies of scale; there is no question of that. The question boils down to whether a larger organisation becomes more complex and lumbering and therefore less efficient.

Let us consider in detail the evidence that Ofwat gave to the Competition Commission in the hearings on Mid Kent Water and Sutton and East Surrey Water, which both challenged the periodic review. Ofwat submitted an econometric model, which quantified the expected economies of scale. The Competition Commission used that model. Ofwat wants to balance the benefits of a merger to customers of the two companies with the benefits to the customer in general in England and Wales through the opportunity to continue to use econometric modelling and methods for comparison and benchmarking. That method of benchmarking requires that there are a statistically significant number of data points available to Ofwat.

Ofwat believes that the customer interest in general in England and Wales is best served by maintaining rigorous comparative performance between the companies in England and Wales

rather than by a merger of a couple of entities, although that merger may bring some benefits to the customers of the two entities involved. The two positions are not contradictory; they are complementary. The argument is complex.

13:00

Fiona McLeod (West of Scotland) (SNP): In your submission, you state that combined savings could be in excess of £100 million, yet the Executive memorandum mentions more than £160 million of efficiency savings. How did you produce a sum in excess of £100 million, but not as much as the £160 million that the Executive has suggested?

Alan Sutherland: There are three aspects to the efficiencies that we are looking to the water authorities to deliver. The first is on operating cost, the second is on capital investment cost and the third is on pure merger savings. We are looking for just over £130 million of savings on operating cost. That figure has been quoted frequently. We believe that that saving should be achievable across either Scottish Water or the three authorities independently. We are looking for capital savings of about £160 million annually by 2005-06. That should be achievable either by the three authorities separately or by Scottish Water. If there is a merger dividend, it could be of the order of about £40 million. My figure of £100 million is the difference between what I believe Scottish Water will achieve and what I believe the three authorities would have achieved on their own without a merger.

Fiona McLeod: Your estimate is £60 million less than the Executive's estimate. You mentioned operational cost savings of £130 million. I presume that operational cost involves staff. Have you estimated how many staff you would expect the three water authorities to lose in order to save £130 million?

Alan Sutherland: I do not think that it is my locus to determine how managers in either the three authorities or Scottish Water should achieve operational savings. The evidence from England and Wales on the issue is far from conclusive. By far the least efficient company in England and Wales was Welsh Water, which cut the largest number of jobs between privatisation and 1998. By far the most efficient company was Wessex Water, which cut less than 10 per cent of the head count that it inherited at privatisation. There is no clear correlation between the actions of management with regard to staff and the efficiency of the organisation. The issue boils down to the way in which staff members are used, the way in which they work and the opportunities for their redeployment. Those are management issues; they are not regulatory issues.

Richard Lochhead: You said that staff changes—presumably staff cuts—will be made in order to make operational savings. You also said that it is not your locus to decide how those would impact, so how can you work out a figure for operational savings?

Alan Sutherland: The number is calculated top-down, with the use of econometric data, which compare the amounts of money that are spent using a mix of asset bases to produce a service for a population of a certain mix. The data points for each authority would fill a 3in-thick ring binder.

Fairly complex statistical regression models are used in order to determine how much money should be available to an authority or to Scottish Water to deliver a service to customers. The figure is not based on a bottom-up assessment. We do not compare, for example, how many staff different authorities employ or how much they spend on electricity or premises. That is not an effective way of conducting comparisons. Such a method does not weight data on geography or types and condition of asset base. The top-down method weights data about those factors.

Richard Lochhead: There seems to be a lot of fog in your answer. From what you have said, it is difficult to ascertain how you work out the figure.

Alan Sutherland: I can give you a detailed description of the econometrics and the method, which is highly complex. Ofwat and a professor of econometrics at the University of Warwick originally developed the method, which has been approved and endorsed by the Competition Commission and the Cabinet performance improvement unit. It is highly robust and has stood the test of time. It is not foggy; it is anything but foggy.

The Convener: The explanation was perhaps foggy in terms of our ability to understand it. I do not want to go through a 3in-thick ring binder of econometric information. It would be useful if a summary of the top-down method that you employ could be made available to us.

Alan Sutherland: I can certainly do that.

The Convener: Richard Lochhead and other members are struggling with the fact that, although you have put a figure on the savings that you expect the new organisation to make, your analysis does not go into detail about staff numbers. That is, as you rightly say, because staff is not your responsibility. Your analysis is of how the service is provided and what expectations you have of the new service that is being developed. It would be interesting for us to have a further insight into the model that is used.

Richard Lochhead: I have a quick question on comparators, to which you referred a lot. You are

comparing the Scottish situation with the private industry south of the border. How confident are you that you can compare the situation in Scotland with that elsewhere in the UK or in Europe? One reason why we welcome you here today is that we are meeting at the heart of the biggest conurbation in the North of Scotland Water Authority area, which of all the water authority areas in Scotland is looking for a decrease in charges. Those issues are pertinent to what we have been discussing. How can you compare, for instance, the Highlands and Islands with anywhere else in the UK?

Alan Sutherland: We could not compare areas by, as you suggest, examining relative staff counts. The econometric models allow us to examine asset bases, distribution of population, service, the extent of the water mains system and the volume of electricity used by pumping water along mains. It allows us to assess, given the condition of that asset base and the area that is being covered, how much money should be allowed.

Models allow us to compare a small water company with a larger one, such as Sutton and East Surrey Water with Thames Water. They allow us to look at the respective asset bases of the organisations and compare them. The methodology is robust and I will happily give the committee a summary of how it works. I hope that that summary will be clear.

Nora Radcliffe: According to the bill, Scottish ministers need not take on board any charging advice that you provide. Does that concern you?

Alan Sutherland: To be honest, I am confident enough in the quality and robustness of our analyses that, if Scottish ministers wanted to disagree with them, we could debate the issue. No doubt ministers would have political reasons for disagreeing, which would reflect the issues that their constituents were raising.

Nora Radcliffe: In a sense, we are talking about two separate jobs.

Alan Sutherland: Yes, I think that they are two separate jobs.

John Scott: Is there a danger that the move towards a single water authority will result in the industry taking its eye off the ball in terms of maintaining progress towards your efficiency targets and theirs? What can maintain that focus?

Alan Sutherland: My office. The new authority will not be allowed to take its eye off the ball—I can assure you of that.

The Convener: That is a good answer.

John Scott: It will do me.

The Convener: We know whom to hold responsible if the eye is taken off the ball.

John Scott: Some have suggested that the activities of your office have not been independent enough, especially in relation to customer representation. Should the Scottish Parliament have a more direct input into the regulation and running of the office of the water industry commissioner, in order to establish greater distance from the Scottish Executive?

Alan Sutherland: I believe that economic regulation should be independent of all forms of government. The regulation has to be objective. If the objective answer is not one that society likes, it is the proper job of elected representatives to make changes. That is a proper function of the Parliament and the Executive.

John Scott: Do you see yourself appealing to the Parliament if you cannot agree with ministers?

Alan Sutherland: The question is not one of me appealing to the Parliament. At the moment, I work under the Water Industry Act 1999. I submit advice to Scottish ministers; if they want to disagree with it, they have to publish their reasons for disagreeing and for not accepting the advice. That is an important sanction. There will then be a proper debate—I am sure that members of this and other committees will be interested to know why the advice had not been accepted. There will be proper scrutiny.

Fiona McLeod: Given the structure of the bill, will you be able to maintain your independence from the Executive if the Parliament does not have a direct role in scrutinising you? According to recent revelations from down south, Tom Winsor, the rail regulator, was threatened by a minister with legislation that would make him conform to what the minister wanted to achieve. Will the bill prevent similar leverage from being applied to you?

The Convener: I think that I must add a healthy "allegedly" to that comment, just in case.

Fiona McLeod: The rail regulator said that to a House of Commons committee.

Alan Sutherland: Ultimately, any minister is able not to accept advice. I would find it difficult to understand why a minister who was sure of their position would not refuse advice but put pressure on me to write different advice.

The industry regulators in England and Wales typically deal with private sector organisations and make determinations against which the only right of appeal is to the Competition Commission, not to ministers. The situation there is different and is not comparable. However, I have never felt ministerial pressure to change any recommendation or advice that I have given.

13:15

Fiona McLeod: So you think that it would be unnecessary for the water industry commissioner to report to Parliament through the committee.

Alan Sutherland: It is necessary for me to report to Parliament through the committee. It is up to you to decide what information you would like. I am happy to try to provide whatever information you—collectively or individually—would like at any time. I am happy to meet you whenever I can help in any way.

The Convener: Thank you for that offer.

John Scott: My question is on a completely different subject. Do you foresee your office producing an environmental action plan, similar to that produced by the energy regulator, Ofgem—the Office of Gas and Electricity Markets?

Alan Sutherland: The situation is different, because the water industry here and south of the border works through a co-ordinated approach from three regulators, all of whom have a clear mandate. The committee will no doubt discuss the roles of the water quality regulator and the Scottish Environment Protection Agency. Everyone has a clear role. All our organisations are keen to work closely together to ensure an equally co-ordinated approach.

One of my key objectives is setting a financial framework that in no way compromises public health or the environment but allows for significant improvements to the quality of water that is supplied to customers in Scotland and to the quality of the environment.

Maureen Macmillan: You say in your written submission that you welcome the Scottish Executive's proposals to extend your remit to cover the interests of all customers who receive services in the Scottish water and sewerage public network, including those who choose to move their custom to new entrants to the market. What powers will you have to demand information from, and set targets for, water and sewerage providers other than Scottish Water, if those companies are regulated by organisations in England?

Alan Sutherland: If Thames Water did something in Scotland, Ofwat would have no locus and would not examine what Thames Water did. Ofwat can consider only the regulated business of Thames Water, which is to supply water and waste water services to the people of London and Berkshire.

Under the licensing proposals on which the Executive consulted, as issuer of the licence we would set its terms and conditions. The terms and conditions would include a series of information requirements of the new entrant to the industry. They would be no different from the requirements

that we would make of any incumbent, because the customer interest dictates that they should be no different.

Maureen Macmillan: You say in your evidence that Scottish Water should be licensed too.

Alan Sutherland: In a competitive market, it is important that everyone believes that everyone is subject to the same rules. One of the easiest and clearest ways of ensuring that that is the case is by licensing Scottish Water for those activities that concern the general provision of water and sewerage services to customers.

Maureen Macmillan: Would that be a formality?

Alan Sutherland: Oh, no. Nothing is a formality in the regulatory process, which is there to ensure that the customer's interest is properly protected.

Maureen Macmillan: Perhaps that is something that we could examine, convenor.

My next question is about the customer consultation panels that exist to ensure that local views are properly represented. Various bodies that have given evidence to us recently have wanted to be on those customer consultation panels. The Federation of Small Businesses, environmental groups and voluntary organisations all wanted to be represented. How do you envisage those panels developing?

Alan Sutherland: There is a very good case for having a clear and publicly stated customer view. Typically, we have put information on our website about public meetings that we have held and made that information available to anyone who has asked for it. There are benefits if customers are confident that the customer view is not in any way being coloured by the regulator. I have no problem with—in fact I support—the idea of the customer panels. One of the clear benefits of the panels is that they ensure input that is clearly independent from the economic regulator and customer service regulator. If I were to comment on how those panels should be made up, it could be suggested that I was trying to influence their make-up and impugn their independence. I certainly would not want to do that.

Fiona McLeod: Let us return to the £100 million savings. We have asked you to provide not the 3in ring binder, but some more detail. You broke the savings down into three categories—operating costs, capital efficiency, and merger savings—with associated sums. When you give us the written evidence, could you tell us what the total operating costs are at the moment and give us the headings under which you expect the operating cost savings of £130 million to be made, and do the same for the other categories that you outlined to us?

Alan Sutherland: I can certainly do that.

Des McNulty: When you answered an earlier question, you spoke about your role as being to get the right answer. At one level, in considering economic criteria and assessing different kinds of projects or methods of operation, that is entirely legitimate. However, at the interface between your regulatory role and the role of SEPA or the drinking water quality people, the answer will sometimes depend on how you weight or value different kinds of criteria for making assessments. Instead of giving a single right answer, you might set out different options or the cost parameters of different options, with operational and environmental factors balanced in different ways. How will you flag up in your advice those situations where there is a choice to be about how such factors are balanced? Instead of giving a single outcome, how will you identify those areas where there are choices to be made, regarding the value that is put on different kinds of criteria? How do you relate to the other regulatory agencies when those situations arise?

Alan Sutherland: The existing process covers that. The quality and standards document that was consulted on in the spring and responded to by the Scottish Executive in the summer dealt with precisely the environmental and public health choices to which Des McNulty refers. It addressed societal issues relating to how well or how badly we maintain the water and sewerage infrastructure. The majority of respondents to the consultation, including me, supported the option that the Scottish Executive selected: that we meet all the environmental and public health compliance targets that we have to meet and that we prevent the asset infrastructure from getting any worse. That choice has been made.

My economic advice to ministers concerns how the risk parameters that our society has decided to adopt, through the quality and standards process, can best and most cheaply be funded. The aim is to ensure that, in the short, medium and long term, customers pay as little as possible to achieve the outputs that we want.

Des McNulty: Any organisation taking forward investment projects will have to balance operational, environmental and other considerations, such as scale and the disruption caused to different activities. Do you have a methodology for dealing with that issue? Are you restricted by your terms of reference simply to considering the bottom line and how operational costs will be affected in the longer term?

Alan Sutherland: Absolutely not—quite the reverse. As part of the project that set up the regulatory reporting requirements, we conducted a thorough analysis of the processes that the water authorities follow when examining their capital programmes to determine how they spend money

and with whom. As a result of that exercise, we wanted to put down a clear marker, in the customer interest, about what we believed the investment appraisal process should be. The Treasury's green book defines that process in general terms for all public sector organisations, but we wanted to define it a little more clearly to ensure that everything that was being done was in the customer interest. That has now been done and we have conducted a first round of audits of the investment appraisal process in the three authorities.

Richard Lochhead: In your written submissions to the committee, both you and the water authorities make it clear that you see the creation of Scottish Water as a way of competing with the private sector and of making the water industry more competitive. If the private sector is allowed, under the terms of the Competition Act 1998, to participate in the water industry in Scotland by means of a licensing system and to compete with Scottish Water, will that not amount to part privatisation of Scotland's water industry? Do you not think that a partly privatised Scottish water industry would be like Scotland's railways: shambolic, disorganised and unaccountable? Would that not be the consequence of allowing the private sector to enter the Scottish water industry?

Alan Sutherland: The water industry has for a long time used private contractors to build waterworks. I suspect that, if we were to look at the history books, we would find that private contractors and firms were involved in the construction of some of the earliest water infrastructure in Scotland. Private sector involvement is not new in the water industry or any other public service.

I do not see the creation of Scottish Water as anything remotely resembling privatisation. In fact, I suggest quite the reverse. If we want an industry that can ensure that it is competitive, it must be low cost and must have high-quality customer service. What we are doing through Scottish Water is enabling an organisation to become lower cost and to improve its customer service. We are also removing artificial boundaries that would allow a new entrant to play off one authority against another. That position is not tenable because of the economic facts.

13:30

The Convener: Thank you for that useful, concise and well-delivered evidence. We appreciate your efforts and thank you for coming along today.

Our next witnesses are Tim Hooton, Colin McLaren, Dr Donald Reid and William Fleming from the Scottish Executive drinking water regulation team. I invite you to make an opening

statement.

Tim Hooton (Scottish Executive Environment and Rural Affairs Department): Thank you for the opportunity to speak to you about my area of activity, which is quite technical. We are the regulation team of the water services unit in the Scottish Executive. I am accompanied by Colin McLaren, who will answer any technical questions concerning water treatment networks, compliance and enforcement. Also with me is Donald Reid, who is a microbiologist and chemist and who can speak about laboratory audit, quality assurance, research, reporting of results, and private supplies, if that is of any interest.

We work closely with the Scottish Executive health department and we keep in close contact with the drinking water inspectorates in England, Wales and Northern Ireland. We also have fairly regular contact with local authorities, environmental health departments, the health boards and consultants in public health medicine.

We are the guardians of drinking water quality in Scotland. We guard the compliance with the Water Supply (Water Quality) (Scotland) Regulations 1990, which will be replaced in 2004 by regulations that were made earlier this year. We monitor compliance with the regulations and seek improvements where we find things wrong. We monitor events and incidents. The investigation of incidents often gives rise to lessons learned. An important aspect of our work is to ensure that the lessons learned in one small part of Scotland are spread across and communicated to everybody else. We monitor the way in which local authorities set about the pursuit of private water supply regulations and we try to obtain better compliance in that area. We also provide professional and technical advice to our administrative colleagues in the Scottish Executive about new proposals such as the one that we are working on at the moment.

Why do we need to change? The regulations that were introduced in July 1990 are very demanding and have served us all well. When they were introduced, there was massive non-compliance, and we put in place administrative arrangements to achieve some improvements. The overall results are three times better. In terms of the more critical parameters, we have had an eightfold improvement overall and non-compliance is now just 13 per cent of what it was in 1991.

One of the most telling figures is the number of boil notices issued in water supply areas. In 1992 and 1993, council environmental health officers and consultants in public health medicine were having to ask for nearly 50 a year. Since 1994, there has been a steady fall in the type of incidents that lead to the need for boil water orders.

After the restructuring of the water industry in 1996, we felt that some of the administrative arrangements were not wholly satisfactory and that there was a need to bring our regulatory function into line with environmental and economic regulation. One of the defects that I have dealt with is the fact that the power of enforcement that is available to me under the 1990 regulations is an all-or-nothing measure—I must either issue a default notice to the entire authority or do nothing. It is not quite as bad as that, in fact, but we thought that the situation would be improved if we had the facility to make a graduated response to a failure that might not be hugely serious for the whole of Scotland but which was important locally.

Another reason for change is that the public industry in Scotland is owned by Scottish ministers. It is desirable for the regulator to exercise his functions in a more independent way. That would be in the interests of openness, accountability, transparency and would ensure that there was no conflict of interest in the Executive. An important aspect of the drinking water quality regulator function is that we will sign up to the Scottish Executive's charter for inspectorates, which will ensure that we are open and accountable.

We are making the change now because this is the first opportunity that the Scottish Executive has had to change the way in which we manage drinking water quality regulation.

Maureen Macmillan: How could the organisational structure be improved in relation to the measuring of drinking water quality? You said that there were many people involved in testing. Am I wrong in thinking that the system is fragmented? How might it be drawn together?

Tim Hooton: Are you concerned about the way in which we achieve compliance with the regulatory requirements through enforcement of the regulations?

Maureen Macmillan: Yes.

Tim Hooton: We have a small team of people in the Executive. We are dealing with what has always been quite a unified industry. Even in the days of regional councils, when we had only 12 authorities to deal with, the industry was managed by a small team in the Scottish Office.

Regulation works as a partnership between the regulators and the suppliers, who are the authorities. No one wants to supply water that will be a hazard to health or will fail to reach the standards for wholesomeness.

Maureen Macmillan: You are talking about private water supplies as well. A lot of work goes into testing private water supplies.

Tim Hooton: I will leave the issue of private water supplies to one side for a moment.

The regulation of public water supplies works on a partnership basis. We manage the business from source to the tap. The regulations require us to examine the way in which water treatment, distribution and service reservoirs are managed—the way in which we get wholesome water into people's taps. Each authority has set up its own in-house quality management systems. One of my important functions is to audit the process in the authority and to point to good and bad practice when I see it, to accelerate and create the synergy necessary to achieve the best improvements.

You are right to say that only 2 per cent of the population is in receipt of private supplies. In addition, there is the tourist population and people who visit hostels, bed and breakfast establishments and so on. People who like to enjoy the Scottish environment are probably exposed to private supplies from time to time. The regulations impose the same standards in theory, but they do not provide local authorities with a duty to enforce—it is a permissive power to enforce. We will be consulting on some fairly radical proposals for new regulations very shortly. At present, the situation in respect of private supplies is less than satisfactory.

Dr Donald Reid (Scottish Executive Environment and Rural Affairs Department): Private supplies are a problem. We recognise that that aspect of the panoply of Scottish water is deficient. As Tim Hooton said, we will soon consult on proposals for new regulations. The suggestion is to make a change from powers to duties in relation to supplies that serve more than 50 people or that are associated with commercial supplies. We will put out those proposals for full consultation by the end of the month.

Maureen Macmillan: Are you suggesting that where a supply serves a certain number of people, a duty should be laid on the water authority to supply people who have an inadequate water supply?

Dr Reid: The suggestion is that the owner of the supply should have a duty to conform.

The Convener: The onus would be on the producer.

Maureen Macmillan: Yes. I am thinking of the evidence that we heard from the people of Strathconon about the problems with their water supply.

Fiona McLeod: You have suggested that you are trying to resolve some of the problems through consultation and various proposals. Section 7(2) of the bill states:

“The Regulator is to have the general functions of—

(a) seeking to ensure that the drinking water quality duties imposed on a public water supplier are complied with, and

(b) supervising the enforcement by local authorities”.

Would it be better if the private suppliers came under your remit rather than that of local authorities? You would then be responsible for ensuring that drinking water supplied by anybody meets the appropriate standards.

Tim Hooton: I am trying to remember the numbers. There are more than 20,000 private suppliers in Scotland, many of which are not covered by the duty to enforce proposals. The number of suppliers that serve more than 50 people more than 10 cu m per day and which come under the terms of the European directive amounts to perhaps 1,500 or 2,000. They have a broad geographical spread. Suddenly to convert a team that regulates three authorities into a team that regulates thousands would be very difficult. The job on the ground in respect of private suppliers is very different and requires local knowledge.

Many commercial operations that will come under the revised regulations are already supervised under the food hygiene regulations by local authority environmental health officers who know what they are doing. Extension of that function made a lot of sense to us. Those officers already supervise ably within the limitations of their powers. Our consultation with the local authorities showed that they welcome the opportunity to move forward. The feeling within the local authority environmental health fraternity is that the present regulations have served them and the population well, but that those who are willing to make improvements have done so. Those who are less willing will not move until there are slightly improved powers. They are ready, willing and able to take on the next phase of improving the private supply sector.

13:45

Fiona McLeod: I want to move away from public versus private provision of water and on to regulation. You talked about different regulators using different pieces of different acts. Has regulation of water become somewhat fragmented? Is this an opportunity to streamline it?

Tim Hooton: Regulation of drinking water is anything but fragmented. I suggested not that the role of the environmental health officer would be roped into supervising drinking water under food hygiene legislation, but that that officer would have duties under the Water (Scotland) Act 1980, too.

The UK is powerful in comparison to the rest of Europe. We are professionals who think that we are far ahead of the rest—we would think that,

would not we? We have a unified way of regulating drinking water and we deliver high quality water to customers' taps.

Maureen Macmillan: I want to pursue the issue of private supplies. I do not mean private companies delivering supplies, but people up glens who get their water from burns. The quality of such water is not always good. The Scottish Environment Protection Agency can come out and test the water and the local authority might tell the people that they cannot drink the water. A tank full of chlorinated water can be given to them, which they hate. Can those people appeal to somebody about the service? Can pressure be put on Scottish Water by the Scottish Executive Environment and Rural Affairs Department to consider ways of providing such people with better water? A borehole could be put down or pipes could be put up the glen, for example.

Dr Reid: As part of the consultation, we are considering alternative adoption schemes, if I may use those words. If a community felt that it did not want to take over the running of a deficient water supply, it could bid inside the quality and standards process for funds for the supply to be taken over by the new authority. There are a range of options. We are aware that people are proud and happy to have private water supplies and we do not want to appear to be big Government imposing chlorinated supplies. If people are not caught under the directive—in other words, if the supply is for fewer than 50 people—we suggest that powers should be retained. Therefore, there is an element of discretion.

As Maureen Macmillan rightly points out, people might not want chlorinated water. In the consultation, we propose that they be given all the facts to allow them to make an informed choice about their drinking water. Many supplies are of poor quality. Over the years, I have seen many such supplies, but many people say that their water is great and that they have never had a day's illness in their lives. I am sure that the water is great—however, they have been lucky.

Maureen Macmillan: Yes—the dead sheep syndrome.

The Convener: That is an interesting point.

I caution members about time—we need concise questions and answers.

Maureen Macmillan: My other question—about the creation of the drinking water quality regulator—can probably be answered fairly quickly.

How distant will the regulator be from the Scottish Executive? Are you being called a new body just so that people will know that you exist? Will you do anything different, which you did not

do previously? Will there be enough clarity about your function?

Tim Hooton: I should perhaps ask our policy colleague to answer that question.

William Fleming (Scottish Executive Environment and Rural Affairs Department): The purpose of the legislation is to give a clear statutory basis for what the regulator does and—in many ways—for what he has been doing for some time. The bill is a continuation of existing powers, but gives those powers a clear basis.

The nearest parallel is with the drinking water inspectorate in England and Wales, which is part of what is now called the Department for Environment, Food and Rural Affairs. The inspectorate is housed within that department, but is clearly distinct. The functions are discharged by the regulator in an operationally independent fashion. However, the regulators are appointed by ministers and are accountable to them, in the first instance, and ultimately—through the ministerial chain of command—to Parliament.

In that sense, the bill is making distinct a function that has been performed previously, but it is not creating a separate body—a non-departmental public body.

Maureen Macmillan: My final question is similar to the one that I asked the WIC—I hate that word.

The Convener: It stands for water industry commissioner. Does it get on your wick?

Maureen Macmillan: It does. Sorry, my mind has gone blank now.

The bill is about regulating the quality of drinking water for new entrants to the market. Will you—like the water industry commissioner—find that to be no problem, or will it be a problem because the water companies might be based in England?

Tim Hooton: I ask Colin McLaren to answer that question.

Colin McLaren (Scottish Executive Environment and Rural Affairs Department): The standards that apply to any new entrant and to Scottish Water will be exactly the same—there is no reason for them to be any different. The fact that a company will operate in Scotland will mean that we will regulate it.

Des McNulty: Do you have the appropriate expertise and staffing levels that will be required to deal with more organisations and with the introduction of a more competitive environment in Scotland?

Tim Hooton: At the moment, we have adequate resources to do what we do. Clearly, the Executive is always responsive to demands and, should there be a large influx of additional organisations

that require a regulatory touch, I would have to obtain the necessary staff to do that. At the moment, we are completely on top of what we do.

Des McNulty: Do you think that outsourcing of drinking water analysis will continue? What are the advantages of outsourcing? Does outsourcing present more scope for error than keeping the process in-house?

Tim Hooton: The taking and reporting of results is an issue of regulation, audit and due process. I will ask Donald Reid to give you a brief insight into how that is done.

Dr Reid: The accredited laboratory process, which is operated by UKAS—the United Kingdom Accreditation Service—would have to be followed in any outsourcing. The authorities outsource some analysis at the moment. As part of their internal quality systems, they audit the external laboratory and, as part of our laboratory audit process for the authorities, we monitor any outsourced analysis that is done. In short, there is no problem.

Des McNulty: Will the amount of outsourcing increase?

Dr Reid: I am afraid that that is not within my ken.

Des McNulty: Your submission indicates that the drinking water quality regulator would be “responsible for regulating Scottish Water independently of Ministers.”

Section 7 of the bill indicates that the regulator will take direction from ministers. Can you clarify that apparent inconsistency?

William Fleming: Yes. As I said, the regulator will have operational independence but, as is the case with the water industry commissioner, ministers will have a power of direction. If you like, the democratic process allows ministers to exercise control quite publicly and visibly. That is not an unusual power in this sort of framework.

Fiona McLeod: Rather than the regulator taking direction from Scottish ministers, would it have been more appropriate if the regulator had been located in an agency such as SEPA, in order to ensure that independence?

Tim Hooton: Our role, and the way in which we perform it, is different in many points of detail from the process that is pursued by SEPA. In one sense, it does not matter where the organisation is located. One could say that it is an accident of history that the regulator is located where it is. The bill reflects the arrangements in England and Wales.

I have probably touched on the difference between the way in which we regulate and the way in which SEPA conducts its business. We

operate very much from source to tap. We look at catchments, water treatment, distribution, service reservoirs and so on, and we conduct a detailed analysis of the process. The primary function of that process is to be absolutely certain that we prevent things from going wrong, because public health is of paramount importance. We are not interested simply in pursuing problems after they have happened. The real point of the partnership between the water authorities and us is to try to keep matters straight and to make sure that they do not go wrong.

Fiona McLeod: I will pursue that point. I liked your phrase “from source to tap”, but I would have thought that an analysis of the source would take you a step further back in the direction of SEPA’s work, which is to ensure that watercourses are of a high standard and that they are as free as possible from pollution. As the water that comes out of our taps starts off being regulated by SEPA, would not it be better if you were all part of the same chain?

Tim Hooton: We could equally construct an argument that we should be part of the Food Standards Agency. I cannot answer your question in detail but I do not think that it matters hugely where we are located.

Regarding the terms of the cryptosporidium direction, we are concerned about the management of catchments to reduce the risk from cryptosporidium. Such rivers and streams are not polluted in any way that SEPA would recognise, because they contain natural organic material, some of which might be oocysts of cryptosporidium, which come from the wild or farm habitats that exist on those catchments. SEPA has different concerns.

The same applies to the pesticide standard. Few waterworks in Scotland are capable of removing pesticides—in Scotland, we rely on there being no pesticides in our drinking water. From a scientist’s perspective, the standard that is set is a political standard. The standard was set by Europe and is very demanding. In many cases it is 10, and possibly 100, times more stringent than the standard that would be set by SEPA for the same watercourse. Our interest in watercourses that are used as drinking water sources is different from SEPA’s interest.

14:00

The Convener: You have done a good job, Mr Hooton, but the minister will come under scrutiny on where the regulator fits into the bill and why the regulator is included in the bill. We will pursue the matter elsewhere. I thank the witnesses for coming—evidence sessions are a useful aspect of our work and witnesses’ contributions are most welcome.

I welcome the representatives of SEPA. Patricia Henton is the chief executive and Tom Inglis is the head of policy co-ordination for water. This is not the first time that we have seen them and I am sure that it will not be the last—I am sure that we will continue to meet. In the traditional manner, the witnesses will have an opportunity to make opening remarks and we will then move to questions.

Patricia Henton (Scottish Environment Protection Agency): I thank the committee for inviting us. We are happy to supplement our answers with written submissions, if necessary. I will make some short introductory remarks. As the committee is probably aware from our previous visits, SEPA provides an effective and integrated environmental protection service for Scotland. We regulate discharges to land, air and water and we seek to improve the quality of the environment through a number of means. We do that primarily through regulation, but also through partnership working with other bodies and through specific action plans that are targeted at clear objectives.

Since we submitted our major evidence in September 2000, we have restructured our organisation. We now operate functionally through four directorates. The relevance of that is that we are, in our day-to-day activity, a unified body that will face the unified Scottish Water. That has advantages for both organisations.

Our short written submission for the meeting contains a number of points on which I am sure members will want to comment. I will draw three key issues to the attention of the committee. Paragraph 3 of the submission states that we welcome the formation of Scottish Water, but that we want to ensure that the reorganisation does not jeopardise delivery of the capital expenditure programme that is planned up to 2005. It also states that during the transition period we do not want the organisation to be distracted from its high environmental compliance rate. It is easy to become distracted when major management issues are being dealt with. Paragraph 9 mentions the value of the sustainable urban drainage system—SUDS—schemes. Scottish Water must be given responsibility for the maintenance of SUDS schemes that are downstream of adopted sewers. Paragraph 10 points out the importance of first-time rural sewerage schemes in improving the environment. We feel strongly about that.

The bill is important because it will set the context for the development of the water services industry in Scotland for the foreseeable future. We would like to be reassured and to ensure that existing good practice in the industry will not be undermined. Much good practice exists and we hope that it will be carried on into Scottish Water.

The Convener: We share many of those views.

John Scott: Essentially, your opening statement expressed a desire. Are you confident that a larger public water authority will continue the environmental improvement work of the current water authorities?

Patricia Henton: Probably. The Scottish water industry has some talented staff and one assumes that the majority of them will carry on in Scottish Water. We have no reason to doubt that the management skills and important technical skills exist right down to supervisory level. That is extremely important in achieving compliance, because the people on the ground make it happen. We are fairly confident that that will continue in the new organisation.

John Scott: Does the bill have clear enough guidance on how priorities for investment should be decided?

Patricia Henton: The water industry commissioner referred to the recent quality and standards process and we were an integral part of that important exercise. It set the priorities for the next five years, so for the next five years the guidance is clear.

Tom Inglis (Scottish Environment Protection Agency): The process is very effective. It enables SEPA, the environmental regulator, to set out its priorities and it enables those priorities to be taken into account at the heart of the process and at the leading edge. That is a new and innovative approach. We are finding it extremely successful and we hope to see it continue, as does the water industry commissioner. Indeed, we would like the process to improve.

John Scott: The Water Industry (Scotland) Bill commits Scottish Water to sustainable development, but only to the extent that that commitment

“does not run counter to the performance of any of”

its

“functions.”

Does that provide specific enough guidance to the industry in Scotland?

Tom Inglis: Ministers retain the ability to issue guidance to Scottish Water. That is the most important aspect of the bill. We will be interested to see the type of advice that ministers produce to secure the sustainable development that we would like to see.

John Scott: Do you have worries about that?

Tom Inglis: I do not and I do not think that SEPA does. We were particularly pleased to see that commitment placed on Scottish Water, because it was not in the earlier consultation. From SEPA's point of view, its inclusion in the bill

is a major step forward.

Fiona McLeod: The impact of section 47(4), which contains the commitment to sustainable development, is in some ways lessened by section 47(5), which says that regard may be paid to that commitment only under certain circumstances. When we took evidence from Scottish Environment LINK, we were told that it would like sustainable development to be much more up-front in the bill, without a get-out clause. Would it be helpful if the bill opened with a statement on and a commitment to sustainable development?

Patricia Henton: There could be advantages in placing the commitment elsewhere in the bill. Sustainable development is a framework or philosophy under which one operates, so logically it could be placed earlier in the bill to make it clearer that it is the guiding philosophy for Scottish Water.

On the same subject, we have suggested that a requirement to take account of the principle of sustainable development should also be placed on the water industry commissioner.

John Scott: Privatised water companies in England and Wales publish annual reports on stewardship, which includes sustainable development, but they are not as yet obliged to produce them. Should Scottish Water be obliged to produce such reports?

Patricia Henton: I am aware that two of the current water authorities—in fact, probably all three—publish reports on sustainable development and have done a lot of thinking in that area. You may be referring to what are sometimes called corporate environmental reports. They often sit alongside corporate annual reports, which the private sector must publish. It would be nice if something similar came from Scottish Water. I have no doubt that the organisation intends to include something along those lines in its annual report and I look forward to seeing what it might be.

Nora Radcliffe: You have already given a succinct answer to my question about the concern you mention in your submission that

“requirements for efficiency savings might reduce Scottish Water's commitment”

to sustainable development. You seemed to allude to that when you said that sustainable development should be part of the water industry commissioner's remit. Will you expand a little on that bald statement?

Tom Inglis: I am concerned that there might be an unlevel playing field. Scottish Water has a clear commitment to sustainable development. If the water industry commissioner does not transfer the same obligation to his licensed customers, that will

immediately create an unlevel playing field. We would like to ensure that Scottish Water's position is not compromised in the marketplace. Anyone licensed by the water industry commissioner must be obliged to meet the same requirements as SEPA is.

Nora Radcliffe: I think the committee very much shares that view.

In your opening remarks and written submission you stated that another major concern is the factors that might militate against maintenance of a comprehensive drainage network. Will you elaborate on that statement?

Tom Inglis: The point is that a return on capital is an underpinning requirement for investment. In a small area with a mixed population, there will be a band of council tax payers whose return is attractive to investors and—at the other end of the spectrum—a group of properties that investors find much less attractive. The provision of new drainage and treatment facilities to the unattractive properties might well most benefit the environment. Being concerned only with a return on capital does not particularly help us to protect the environment.

Nora Radcliffe: As someone who represents a largely rural community, that is music to my ears.

Should the water industry commissioner be given environmental powers similar to those of other regulators? For example, Ofgem has produced an environmental action plan. Would such an approach be readily transferable to the water industry commissioner and would that be desirable?

Patricia Henton: If such a power were transferred to the water industry commissioner, there might be a danger of confusing who does which job. As SEPA is the environmental regulator, I see that very much as our job. Although we also have broader powers, responsibilities and duties, I feel that the environmental dimension should remain with us.

Nora Radcliffe: That reply was very clear and helpful.

Tom Inglis: We are currently talking to the water industry commissioner about the environmental outcomes of the extensive capital investment programme that he is undertaking. He will want to tick the box at the end of his spreadsheet that indicates whether he has achieved the objectives at which the investment was targeted. We have shown him that the situation is fairly complex and that we will work closely with him to ensure that he obtains the outcomes for which he has approved the investment.

Fiona McLeod: I want to ask a similar question

to one that I asked the drinking water quality regulator. Paragraph 14 of the SEPA submission simply states:

“SEPA nor any of its predecessor bodies have ever been involved in the regulation of drinking water quality.”

The drinking water quality regulator talked about the integrated environmental management of water from source to tap, but the source of water is the clouds. Could the DWQR have a role, along with the environmental regulator?

Patricia Henton: We in SEPA are certainly not seeking to take on the role of the drinking water inspectorate. We do not feel that that sits easily with our responsibilities, primarily because water quality is a public health issue, rather than an environmental one. I ask Tom Inglis to elaborate.

Tom Inglis: Like the drinking water regulator, we have considered the issue since it was first raised by the Transport and the Environment Committee and we feel that it is very much a question of public health. That is not an area in which SEPA has expertise; it depends heavily on the health authorities and local authorities' public health staff. We do not feel that we are the appropriate body. We have examined the work of similar bodies in Europe and have found that it is mainly health ministries that control drinking water quality. The model that has been proposed fits better with other European models than would SEPA taking on that responsibility.

14:15

Fiona McLeod: Aside from the fact that you do not have the necessary expertise, am I correct to say that, even in an organisational sense, you do not view it as appropriate for the current inspectorate to be part of SEPA as opposed to part of the Executive?

Patricia Henton: It is—

The Convener: That is a question for the minister, I think, although I am happy to hear Patricia's views.

Patricia Henton: We do not consider that the responsibility sits easily within SEPA's realm.

Richard Lochhead: We have heard that the water commissioner expects considerable efficiency savings following the creation of Scottish Water. Among those will be significant cutbacks on staff. Do you have any concerns about proposals to cut even further the number of staff working in the industry and about the implications of that on the industry's ability to fulfil its environmental obligations?

The Convener: Before Patricia Henton answers, I point out that the water industry commissioner did not, to be fair, indicate staff cuts

at any level; he had a model based on information that he will forward to us. We would still like to hear Patricia's view, but I do not think that we should place words in the water industry commissioner's mouth.

Patricia Henton: Our interest is in environmental compliance. It is for Scottish Water to decide how many staff it has, how it deploys them and, in particular, how it uses them to ensure that environmental compliance with the authorisations and standards that we have placed upon it continues.

Maureen Macmillan: I am sorry, but I want to talk about sewerage again, particularly rural sewerage. The fact that land becomes unable to cope with any more septic tanks is a big problem in developing rural communities. I can think of a village near me where that is the case. You mentioned a support scheme for existing settlements that require public sewerage. Is there any indication that that may go ahead?

Tom Inglis: We have made representations whenever the opportunity has arisen. We depend on decisions taken by others, but we will continue to make those representations, because when purely economic factors are being considered in judging the viability of a scheme, it is in the best interests of the environment to have support.

The Convener: If there are no other questions, I thank the SEPA representatives for joining us. Their evidence will form a major part of our consideration of the bill.

I ask representatives of the three water authorities to join us—Dr Jon Hargreaves, Katharine Bryan and Charlie Cornish. Bob Cairns and Colin Rennie are also here, as is Doug Sutherland, finance director of the North of Scotland Water Authority, on the back benches. I know well what it is like to be on the back benches.

I understand that Colin Rennie will be ringmaster when it comes to allocating questions. I must declare an interest: the last time I was with Colin Rennie, there was a 6 ft cotton bud between us, as part of the "Bag it and bin it" campaign. That is another matter entirely, and we will not go into it in great detail.

Our witnesses may make an opening statement before we move to questions.

Colin Rennie (North of Scotland Water Authority): We have nothing to add to our written submission. We have followed proceedings very closely and we think that our time would best be spent attempting to deal with members' concerns.

The Convener: That is very good.

Maureen Macmillan: I would like to put a

couple of very general questions to your organisation. Are you on track to meet the efficiency targets that the water industry commissioner has set? Given that a change in the structure of the industry will inevitably take time to bed in, will those targets be met?

Colin Rennie: We have started the process, but it is far too early to say whether we will meet our targets. The North of Scotland Water Authority will remain in existence only until the end of March next year, but we have made a good start and are confident that we will meet the target that we have set ourselves for the end of March.

Katharine Bryan (North of Scotland Water Authority): Each of the three authorities is now facing the combined challenge of the efficiency targets. Increasingly, we are working together to bring about significant changes. That is one of the benefits of creating Scottish Water. We in the north could not have easily met the challenges that we face alone. Together, we will be able to meet them much better. It is probably too soon to ask whether we are confident of achieving the final targets, but from the work that I have seen being done in all three authorities it is clear that we are making significant inroads.

Maureen Macmillan: Are you working together to achieve the targets?

Katharine Bryan: Very much so.

Maureen Macmillan: The chair and the chief executive designate of Scottish Water have been asked to give their views on the proposed structure of the Scottish Water board. Are you confident that water industry staff in Scotland have the skills and experience to help the public authority participate in a more competitive environment? What measures are you taking to ensure that staff get the training that they need to carry out that function, which may be very different from the one to which they are used?

Dr Jon Hargreaves (East of Scotland Water): At the moment we are putting structures in place and announcing and recruiting to those structures. In the next few weeks we will recruit the directors. That will include looking outside the business, to ensure that we end up with the right skills at the top of the business at least.

The process of commercialisation—if I may précis what Maureen Macmillan said—requires more than a couple of days' training for staff. It takes time, and the right processes and systems need to be put in place. That will be done. In a way, it is part of the restructuring of Scottish Water. It is not an event that happens when we select a few people; it is a cultural change and it will take many years to complete.

Maureen Macmillan: Not too many, surely, or

you will not be very commercial.

Dr Hargreaves: It depends on what you mean by commercial. We are already becoming much more focused on saving money. This year East of Scotland Water is 3 or 4 per cent ahead of a pretty tough budget that the board set at the beginning of the year. That shows that the businesses are responding to the challenge.

Maureen Macmillan: Is the same true of the other authorities?

Charlie Cornish (West of Scotland Water): This year West of Scotland Water faces a hefty efficiency challenge. I am pleased to say that in the year to date we are ahead of budget. We are performing fairly well against both revenue and cost targets. We are fairly confident that in this financial year we will perform particularly well. That will provide Scottish Water with a good platform.

Councillor Robert Cairns (East of Scotland Water): It is important to stress that we have not suddenly discovered the concept of efficiency this year. Since the authorities were created, we have worked steadily on becoming more efficient. As Jon Hargreaves said, this year East of Scotland Water is running ahead of the efficiency targets that it has set itself.

Maureen Macmillan: So you have no fears about your ability to take on the commercial water companies from elsewhere.

Dr Hargreaves: That is a slightly different question.

Maureen Macmillan: You can take it is a comment, rather than as a question.

Dr Hargreaves: We will try to answer the question, if members would like us to.

The Convener: I would like a yes or no answer—I am only kidding.

Dr Hargreaves: Yes, of course we have fears. We have to set ourselves up properly. In a competitive environment one never knows what is going to happen. We are serious about setting ourselves up properly.

Maureen Macmillan: I meant as far as staff attitudes are concerned. Thank you.

Des McNulty: Are you on track to meet the European environmental targets in terms of the investment programme? What will be the effect of setting up Scottish Water on achieving those targets?

Katharine Bryan: In the north, our capital programme is well on target and we are on track to meet the main corporate targets against which we are measuring our performance this year. We

are talking not only with each other but into the Scottish Water work streams about how we will ensure that in the future. We are looking again at waste water compliance and monitoring our performance very closely because, as a previous witness said, at times of reorganisation, eye-off-the-ball issues can arise. All three authorities are monitoring their targets closely and we are discussing with the Scottish Executive our commitments to meet the various environmental regulations in the future.

Charlie Cornish: The same comments apply to our work in the west. We are on target to deliver our capital programme and should be there by the end of the financial year.

Dr Hargreaves: Only about a third of the value of the programme that we agreed through the quality and standards process is concerned with meeting legal obligations. Two thirds of the cost is concerned with improving infrastructure and ensuring that things that are compliant today remain compliant. There is a lot of work to be done besides ensuring compliance.

Des McNulty: So you have no concerns that something might arise that would make you unable to be compliant?

Dr Hargreaves: Like a new piece of legislation?

Des McNulty: I am talking about the reorganisation process. Are you concerned that something might jeopardise aspects of that, or can you not envisage any specific projects arising, delays in which would lead to non-compliance and, presumably, penalties from Europe?

Dr Hargreaves: No.

Des McNulty: East of Scotland Water has said that a gradual reduction in staff numbers is likely, whether or not a move is made to a single water authority. Is that true across the board? How are the water authorities handling the fact that there will be a staff reduction? How are they dealing with the staff in that context?

Colin Rennie: As Bob Cairns said, that process is not about to begin as a consequence of the move to Scottish Water. All three authorities have been reducing their staff numbers. I shall give just one of the reasons for that. If a clapped-out plant that requires six man-hours every day is replaced with a brand new plant that is electronically controlled, there will not be the same staff demand. Our heavy investment programme has led to new plant that is computer controlled, so there has been less demand for individuals.

I understand that your question relates to the way in which we treat people. I would like to think that we treat people very well. We have a voluntary severance package that is the same throughout the three authorities. It is generous, as

it is way beyond the minimum standard. Above and beyond that, we give advice to individuals who are retiring on how they might go about that process. If they are seeking new employment, we give advice on careers—we have quite a programme of that advice mapped out. We offer a lot of coaching and assistance, as some people may not have applied for a job for a long time and might need such advice. The minister advised me some time ago that we should always treat people humanely. I think that we are doing that rather well.

Des McNulty: Do you expect that there might be occasions when there are compulsory redundancies, or will the voluntary programme deliver the staff reductions that you are talking about? What assurances can you give to staff in the industry on job security, bearing in mind the pattern of reductions?

Colin Rennie: The move towards Scottish Water will offer the best protection for those who remain in the industry. Jon Hargreaves may have a vision of what might happen in the future.

Dr Hargreaves: Sufficient people are volunteering for redundancy in the three authorities to satisfy the need to reduce numbers. In the case of East of Scotland Water and North of Scotland Water, we have more volunteers than we can currently let go. As was mentioned earlier, we do not want a water Railtrack, which is what letting too many go would create. We must do this in a carefully planned way.

We have never said—and neither has the minister—that any options can be ruled out. We have established a working party, which met the trade unions in Dundee yesterday. They are getting involved in the work streams. Today, with Katharine Bryan's people, I visited a group of workers in Aberdeen who asked me the same question. My answer was that I am not going to lie to them, because I do not know. Right now we do not need compulsory redundancies—and the longer we do not need them, the better. If we do need them, we will do it in a humane way.

Perhaps people do not remember that from 1996 until a year ago East of Scotland Water used compulsory redundancy through restructuring as a way of reducing numbers from about 2,200 to 1,750. That was done in a proper and humane way, with proper processes. It was not cavalier. Currently, we do not need to use compulsory redundancy; as long as we do not need to do so I will be delighted.

14:30

Charlie Cornish: From the perspective of West of Scotland Water, this year we will manage to deliver our efficiency targets without the need for a

compulsory redundancy programme. The trick in managing such exercises is to ensure that new business processes, work processes and working practices are introduced to enable you to deliver and improve the standard of service. As long as you are able to do that, the exercise should be done in a manageable way. Inevitably, as we go forward into Scottish Water over the next few years, it will be more difficult to get volunteers.

Des McNulty: Jon Hargreaves said that at this stage we do not know how it is going to be done. Is it possible to give us estimates on the outcomes that you are looking for in terms of staff numbers?

Dr Hargreaves: Not at the moment. The business planning, which is progressing, is many months away. Even when we have done that we will not know, because we must unwind this thing very slowly and carefully. We do not know the answer to your question. I could speculate and so could a lot of other people, but I do not believe that it would be either useful or sensible to do that.

Des McNulty: But it would be your intention in the context of conducting the exercise to consult the relevant trade unions very closely.

Dr Hargreaves: We are doing that now.

Des McNulty: Can you comment on the impact of the Executive's announcement of its proposals for a single water authority on your capability to retain and take on staff at different levels of your organisation? Has it affected recruitment, retention and morale?

Colin Rennie: The answer is yes. Katharine Bryan will deal with the detail from NOSWA.

Katharine Bryan: Broadly, the staff of all three water authorities welcome the change. We thought at the time of the announcement that we might have difficulty recruiting people when we knew that efficiencies were to be made. Although there have been a number of resignations, the situation is currently manageable. It has not reached a difficult proportion. I am delighted to say that we have been able to recruit new specialist staff. An example earlier in the year for NOSWA was a head of health and safety, who was determined that he would take the chance for the future. It is not yet a problem.

Charlie Cornish: In West of Scotland Water, we do not have a significant problem when we lose staff or with retaining staff. When we lose staff, we manage to reorganise internally to enable us to continue to deliver services. It is not currently an issue for us.

Dr Hargreaves: I echo what Katharine Bryan and Charlie Cornish have said. We have lost some staff, but we have a turnover of about 120 staff a year.

Richard Lochhead: I am concerned when you say that people are leaving the industry but that it is not yet a problem. You have said that you have been making efficiency savings in recent years. The water industry commissioner is planning more efficiencies for the water authorities following the creation of Scottish Water. That raises the question: what slack is left to shed more staff, given that the WIC has accepted that a fair chunk of his £100 million or £160 million of savings has to be through shedding staff?

NOSWA's submission on the creation of Scottish Water states that staff numbers will have to be cut again. I think that, between you, you spend about £200 million on staff at the moment. Tens of millions out of that £200 million will have to be cut again. How on earth can the authorities cope with that over and above the number of staff already lost? Do you think that you are being forced to make staff cuts that the water industry cannot afford?

The Convener: Again, the WIC will speak for himself in the *Official Report*. Colin Rennie will take up that point.

Colin Rennie: Charlie Cornish mentioned—as I did—that the new investment allows us to take a different approach. Different working practices also allow us to take a different approach.

I tackle the staff problem—if it is fair to describe it in that way—from a different perspective. Were the water industry in Scotland not to become efficient, the threat to the jobs in the industry would be far greater. Job losses would be far greater because the competition would be sharper and the Scottish water industry would lose out. The best security that we can offer those who remain in the industry is to meet the target that the WIC set.

Richard Lochhead: Do you therefore accept the charge that you have been inefficient in recent years?

Colin Rennie: There is scope to be more efficient. Since the inception of the three water authorities, they have made moves towards greater efficiency. In NOSWA's case, something like 25 per cent of revenue costs have been taken out during the first five years of its existence. I think that the figures are similar for the other two authorities. There is no question but that there is scope for more efficiency. The investment programme allows that.

Richard Lochhead: Can we hear from Jon Hargreaves on that?

Dr Hargreaves: We have never denied—or said otherwise than—that the authorities are not at the frontiers of efficiency. Our job is to be efficient, not just because we want to be efficient, but because

customers should get the best value for money in Scotland. Why should our customers be penalised in comparison with those south of the border? That is where our boards have come from and why they agreed and signed up to the targets that were placed on the authorities earlier in the year.

We are working towards those targets. That is about staff going, but we can remove a huge number of costs in the businesses that have nothing to do with staff losing their jobs or leaving the industry. Those costs are about how people work and about the amount of chemicals and energy we use. There is a pile of other costs that can be cut by working in a smarter way. I believe that we have a huge obligation to achieve the cheapest possible price for the best service to our customers.

Richard Lochhead: I will ask Jon Hargreaves one last question. Would you have made the staff cuts that are in the pipeline under the efficiency savings if they had not been recommended by the WIC?

Dr Hargreaves: Yes. When I arrived 14 months ago, East of Scotland Water's board had a plan as part of its five-year programme to remove 25 per cent of its costs in the next two years. We are on track to do that. How much further we would have gone with that would have depended on how we monitored competitiveness against the companies that threaten us from the south.

Nobody feels that the WIC has forced cuts on the industry. He has carried out some analysis that demonstrates that a significant efficiency gap in Scotland needs to be made up to get us to the forefront of efficiency. We have also carried out the analysis independently. We do not rely only on the WIC to analyse the industry; we employ consultants to do that. The minister—and, I therefore assume, the Parliament—wishes us to make up the gap, and we aim to do that in the interest of our customers.

Richard Lochhead: I ask Katharine Bryan for her response to the question with reference to staffing in rural areas, given that NOSWA is responsible for most of rural Scotland.

Katharine Bryan: I am not sure of the connection between your questions. You have moved from asking about staffing to asking about rural and urban areas.

Richard Lochhead: We would expect any staff cuts to have a greater impact in the water industry in rural areas. You have already made staff cuts in rural areas. The efficiency savings that the WIC has required will lead to more staff cuts. Are you not concerned about that? Where does it all end?

Katharine Bryan: The three authorities are agreed that Scotland is attractively diverse and

that the solutions for inefficiencies in Glasgow or Edinburgh would not necessarily apply to the rural parts of Scotland or the islands.

What needs to happen in Scottish Water is a plan that works. As I said to Maureen Macmillan, the three authorities are working to see how we manage networks and customer services across the piece. We are bringing together our information. It would be inappropriate to say that we have a plan set and ready now, but we are looking at such things as multiskilling, which is applicable to rural areas. I am conscious of the fact that NOSWA is a significant employer in the north and the islands. There is nothing to suggest that we will not be a significant employer in the future, but we must examine work patterns and examine multiskilling and other ways of doing things.

The Convener: I think that this horse has been fairly well flogged, but I see that Robert Cairns wants to comment. Is your comment related to Richard Lochhead's question?

Councillor Cairns: Like Katharine Bryan, I do not see the connection. Lots of efficiencies can easily be made in rural areas. For example, at one stage every operator would go to the depot and get his instructions for the day and then go out and do his job. Now, they have laptops and pick up the various matters that they have to attend to at home. That is the kind of efficiency measure that has more efficiency gain in rural areas than in urban areas.

The Convener: As I have worked in a large public sector organisation, I know that employees take great pride in providing the best for the penny and the pound that is taken off the customer. That is the important point about public sector organisations. There is a duty on everybody who works for such an organisation to get the best for every pound. In jobs that I have had in the past, we certainly took pride in ensuring that we operated efficiently. It is a mixed economy of delivery. It was about equipment, investment and training—and about staffing levels—but at the end of the day it was about delivering a good service.

Des McNulty: Assuming that the vesting date is April 2002, at what point will you be able to give us an outline organisational map of how the new organisation will look?

Colin Rennie: We are not assuming that it is April 2002: we intend that it will be April 2002. Jon Hargreaves can answer that question.

Dr Hargreaves: What do you mean by an outline organisational map?

Des McNulty: I do not mean a detailed synopsis saying where every individual will go, but just the shape of the new organisation and how you see it operating.

Dr Hargreaves: In a sense, that has already been published with the advertisement for jobs. We would be more than happy to give you that if it would be useful and if you have not already seen it. It describes six directors who are very focused on doing certain things for Scottish Water—finance, delivery of assets, managing efficiencies and so on.

If you are asking when the full structure will be available, it will not actually work like that. What we are working on at the moment is what it will look like on 1 April 2002, and a lot of it will look exactly as it does today. There may well be new directors and general managers in place, and maybe some senior managers. As for when the new organisation will be in place, it will probably be in 2005-06. It will go through many iterations and changes. I am not trying to evade answering the question. Whenever we publish anything for the staff on this issue, we would be happy to forward it to the committee if that would help. It is not private information.

The Convener: That would do two things: give us an indication of how the organisation is developing and give us an indication of how you are liaising with, consulting and informing your staff, which we all agree is vital during this period of transition.

Nora Radcliffe: I would like to shift the focus on to how your business and domestic customers give you feedback about the proposed changes. Have you had any reaction from business and domestic customers to the proposals for a single water authority? Have you had any reaction to the proposal that you will bill your domestic customers independently?

Colin Rennie: In answer to your first question, all the responses that we have had have been positive. People look for an efficient service. The jury is probably still out, because they are waiting to see whether it will be more efficient. Because of the geography, people in the north have had to endure larger price increases to meet various costs. The move to Scottish Water will mean a harmonisation of charges. Many people believe that it will be a much fairer system.

Charlie Cornish: Most of our business customers now treat West of Scotland Water as they would other suppliers, by wanting the best service at the lowest possible cost. We regard the creation of Scottish Water as positive. In the longer term we will be able to deliver better services and—I hope—have competitive and affordable rates. West of Scotland Water's reaction has been favourable to date.

Dr Hargreaves: I will address Nora Radcliffe's second question. We have not—despite what the newspapers said after our last visit to the

committee—made a decision to take over domestic billing. We are considering that issue with many others. The newspaper response to our last visit was not what I expected. We have had comments on domestic billing and we constantly discuss the matter with councils, which vary about whether they want to continue domestic billing. Customers would welcome independent billing, because it would bring the clarity and individualism that they seek.

14:45

Nora Radcliffe: Have you any indication of how the rest of the water industry in the UK is reacting to the bill's proposals? Is a large, single water authority regarded as a threat to our neighbours down south? Are they quaking in their shoes at the idea of this wonderful new organisation?

Colin Rennie: We hope so.

Dr Hargreaves: Bob Cairns and I gave a paper at *The Economist* magazine's conference in London a couple of weeks ago. People are fascinated by what is going on. They think that we are getting it a lot better and more right than some of the regulation in England, because the water authorities down there are not allowed to merge.

From that point of view, a jealous eye is being cast upon us. I do not think that they are quaking in their shoes and I do not want them to, because it will be great when they wake up one morning and find that it is too late. We do not want to warn them. However, that is a long way off.

The Convener: Good answer. Do members have other questions for our witnesses? It seems not. I thank the witnesses for coming. This is a continuing and interesting dialogue. We have a lot invested in this matter, as—it is clear—do you. We hope that this public sector model will set an example for other utilities and providers, not only in Scotland but worldwide. It is looking good and I wish you all the best with the venture.

Colin Rennie: Thank you for the opportunity.

The Convener: That, colleagues, draws us to the end of an interesting day in Aberdeen. I have enjoyed it immensely. I thank everyone who came to the morning and afternoon sessions, those on the public benches who stuck it out and listened to our considerations, and the media who were involved in our processes. I also thank our hosts, Aberdeen City Council. We look forward to returning to Aberdeen at some time in the future.

Meeting closed at 14:47.

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