

# **TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE**

Tuesday 4 November 2008

Session 3

£5.00

© Parliamentary copyright. Scottish Parliamentary Corporate Body 2008.

Applications for reproduction should be made in writing to the Licensing Division,  
Her Majesty's Stationery Office, St Clements House, 2-16 Colegate, Norwich NR3 1BQ  
Fax 01603 723000, which is administering the copyright on behalf of the Scottish Parliamentary Corporate  
Body.

Produced and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR  
Donnelley.

---

# CONTENTS

Tuesday 4 November 2008

**Col.**

<b>DECISION ON TAKING BUSINESS IN PRIVATE.....</b>	<b>933</b>
<b>BUDGET PROCESS 2009-10.....</b>	<b>934</b>
<b>SCOTTISH WATER ANNUAL REPORT AND ACCOUNTS 2007-08 .....</b>	<b>958</b>

---

## **TRANSPORT, INFRASTRUCTURE AND CLIMATE CHANGE COMMITTEE** **20<sup>th</sup> Meeting 2008, Session 3**

### **CONVENER**

\*Patrick Harvie (Glasgow) (Green)

### **DEPUTY CONVENER**

\*Cathy Peattie (Falkirk East) (Lab)

### **COMMITTEE MEMBERS**

\*Rob Gibson (Highlands and Islands) (SNP)  
\*Charlie Gordon (Glasgow Cathcart) (Lab)  
\*Alex Johnstone (North East Scotland) (Con)  
\*Alison McInnes (North East Scotland) (LD)  
\*Des McNulty (Clydebank and Milngavie) (Lab)  
Shirley-Anne Somerville (Lothians) (SNP)

### **COMMITTEE SUBSTITUTES**

\*Alasdair Allan (Western Isles) (SNP)  
Gavin Brown (Lothians) (Con)  
David Stewart (Highlands and Islands) (Lab)  
Jim Tolson (Dunfermline West) (LD)

\*attended

### **THE FOLLOWING GAVE EVIDENCE:**

Sir Ian Byatt (Water Industry Commission for Scotland)  
Craig MacKenzie (Water Industry Commission for Scotland)  
Colin McLaren (Drinking Water Quality Regulator for Scotland)  
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)  
Philip Wright (Scottish Government Climate Change and Water Industry Directorate)

### **CLERK TO THE COMMITTEE**

Steve Farrell

### **SENIOR ASSISTANT CLERK**

Alastair Macfie

### **ASSISTANT CLERK**

Clare O'Neill

### **LOCATION**

Committee Room 4



## Scottish Parliament

### Transport, Infrastructure and Climate Change Committee

*Tuesday 4 November 2008*

[THE CONVENER *opened the meeting at 13:36*]

### Decision on Taking Business in Private

**The Convener (Patrick Harvie):** Good afternoon and welcome to the 20<sup>th</sup> meeting this year of the Transport, Infrastructure and Climate Change Committee. I apologise to committee members and others for keeping the committee waiting for a few minutes.

We have received apologies from Shirley-Anne Somerville, so I welcome Alasdair Allan as her substitute. I remind everybody that mobile phones and other such devices should be switched off.

Item 1 on our agenda is a proposal to take item 4 in private. Item 4 is consideration of a draft report on the budget process. Do members agree that we should take item 4 in private?

**Members indicated agreement.**

## Budget Process 2009-10

13:37

**The Convener:** Item 2 on our agenda is evidence on the Scottish Government's draft budget for 2009-10. We will be reporting to the Finance Committee with our views on the Government's spending plans, and we have agreed to focus this year on the climate change element of the budget—although we will also explore issues relating to the proposals on transport.

I welcome the Cabinet Secretary for Finance and Sustainable Growth and his colleagues. I invite Mr Swinney to introduce his colleagues and to make introductory remarks.

**The Cabinet Secretary for Finance and Sustainable Growth (John Swinney):** Thank you. On my left is Dr Malcolm Reed, who is the chief executive of Transport Scotland. On my right are Philip Wright, who is the deputy director in the Government with responsibility for climate change; Guy Houston, who is the director of finance at Transport Scotland; and David Reid, who is head of finance in relation to the finance and sustainable growth portfolio in the Scottish Government.

I appreciate that the committee intends to concentrate on climate change today, so my statement will relate to that, although I will be happy to answer questions on any issue that committee members wish to raise.

The Government is committed to ensuring that Scotland plays a leading role in the global effort to reduce greenhouse gas emissions and to avoid the dangerous implications of climate change. That is why I announced in my January statement the intention to introduce carbon assessment as part of the overall business of Government. Issues associated with carbon assessment reflect the complexity of modern economies. Our spending reaches far and wide, affecting not only our own economy but economies much further afield. Government investment influences how we travel, how we live, what services we consume and, to some extent, what goods we consume—whether they originate in Scotland or not. Therefore, understanding the carbon impact of our investment, and understanding how we might reduce it in line with our ambitions in the proposed bill on climate change will be a complex task for which there are few parallels.

That complexity will not deter the Government from acting—we are determined to embed carbon assessment in the heart of the Scottish Government's decision-making process. We will have to ensure that the assessment tools that we

develop are appropriate for the task at hand and that they will give us the certainty that we need to set us on a trajectory towards a low-carbon economy.

We are not aware of any other Government that assesses the carbon impact of its total expenditure, nor of any equivalent approach in the private sector. Together with our advisers, we are checking that and seeking to identify similar processes in other countries. Where good examples of existing practice can be found, we will adapt them to our needs. Where solutions are required—in areas such as the total Government spend—we will use the best advice possible to establish methods that are correct for Scotland.

Given the complexity of the task and the uncertainties that lie ahead, we have taken a two-strand approach. First, we are seeking to develop a high-level assessment that will be used at the level of the spending review process. We have organised an international workshop conference for the end of November to help us to refine our thinking on the matter.

Secondly, we are about to start work on adapting methods for individual assessments that will be applied at the level of programmes, policies and projects. The committee may find it relevant to know that, in the letter that I issued to the Finance Committee convener in September when we published the budget, I set out the detail of the steps that we are taking to move forward the carbon assessment tool. We are entering a new and challenging area and so the Government will do all in its power to deliver the goal of bringing carbon assessment to the heart of our decision making and enabling that process to be taken forward by the Parliament as part of the scrutiny process.

Finally, when I appeared in front of the committee in September, I said that the proposed climate change bill would be introduced in November, but it is now likely that it will be introduced in early December.

**The Convener:** Thank you. Obviously, we will in passing discuss the proposed climate change bill in our questioning.

Our first question is on the carbon assessment tool. During the chamber debate on the Budget Scotland Bill, you made a commitment to have the tool in place by 2009-10. You stated that again in your letter to the Finance Committee convener. Is that what you meant? If so, is that still the commitment?

**John Swinney:** In the chamber, I said that we would be developing the carbon assessment tool and that we would do that during 2009, which is exactly the work that is under way. The work that we are undertaking is pioneering—to our

knowledge, no other Government has done it. There is therefore a level of complexity to consider. At its meeting last week, the committee heard about the scale of the challenge from a variety of witnesses, a number of whom are the individuals who are engaged in the process that the Government is taking forward.

**The Convener:** A degree of welcome was given to the initiative. In the statement that you made in the chamber, you said:

“Members will ... be interested in a new initiative that I am working to have in place by 2009-10.”—[*Official Report*, 23 January 2008; c 5290.]

The reference was to the carbon assessment tool. I seek clarity on the matter. We will not have the tool in place by the 2009-10 financial year, will we?

**John Swinney:** No. We will not have it in place by the 2009-10 financial year. As I said in my opening statement, I am working to have it in place by 2009-10. Unless I am mistaken, that extends to the end of 2010.

**The Convener:** So, is the commitment now to have it in place by the end of the 2009-10 financial year?

**John Swinney:** I am trying to take forward the work as expeditiously as possible. The flavour of the discussion that the committee had with witnesses last week is that there is wide recognition that the task in hand is not a straightforward one for Government to take on.

We are proceeding with the investigative work that is required to put this in place and we are doing that as expeditiously as possible. Obviously, we are drawing together a significant amount of advice. We will work to put in place the tool as soon as we possibly can. Certainly, we are working to the timescale that I shared with Parliament in January.

**The Convener:** Thank you. I think we all recognise the complexity of the task. I am pressing you because the committee wants to be clear on the Government's understanding of the matter. The commitment has been made and you have examined the complexity of the task, so can we expect the tool to be in place and useable by the end of the 2009-10 financial year and will the following year's budget be carbon assessed?

**John Swinney:** That is what I am working towards being in a position to guarantee. That is my objective.

13:45

**The Convener:** It was also suggested that a carbon balance sheet for transport would be introduced before the full carbon assessment tool

is available. Has any progress been made on that? Are any findings—or interim findings—available? If not, what is the timescale for availability of that tool?

**John Swinney:** As I am sure the committee knows, there was a commitment in the national transport strategy to construct the carbon balance sheet in relation to transport. It was expected that it would be introduced as part of the first review of the national transport strategy in 2010. There has been some consultation of stakeholders on the formulation of the carbon balance sheet and that dialogue will continue in the coming months. My officials in the transport directorate are determining whether unique additional research is required to supplement work that is being done by the Department for Transport. We have no desire to duplicate the work of the DFT, so if it is carrying out work that will be helpful in this respect, we will look to that research evidence and will not duplicate it with a separate research exercise. The work is under way, and we will be giving regular updates to the stakeholder group that supports us on the national transport strategy.

**The Convener:** Previous witnesses have expressed surprise or disappointment that although the concept of a carbon balance sheet for transport dates back to 2006, it was not expected that it would be available until 2011. Can you respond to those criticisms or comments by saying something about the timescale, or about the reasons for the extended time that it has taken to develop that work?

**John Swinney:** My understanding—I stand to be corrected—is that it was never envisaged that the material would be available earlier than 2010. We are working to the original expectation of the plan, which was formulated as part of the national transport strategy. Obviously, I have commissioned other work more generally within the Government, which has been about the carbon assessment tool for the budget as a whole. That is being taken forward as a consequence of the budget process that I announced to Parliament last year. Both those initiatives are being worked on now and, according to the information that I have, the timescale for neither has changed.

**The Convener:** I move on to the methodology for the carbon assessment tool, which is—as I think we would all accept—a complex set of questions. Can you give us any information on the various different approaches that have been or are being considered to develop the methodology? What aspects is the Government most likely to prioritise in developing a methodology?

**John Swinney:** First, as was pretty clear from the evidence that was taken by the committee last week, there is no holy grail, if I can put it like that. Differing propositions will emerge from the depth

of academic opinion that exists on that question. In a sense, the Government is operating on developing the carbon assessment tool without a predetermined agenda. There is a desire to establish a tool that is robust, credible and easy to administer so that it becomes a relatively straightforward and practical component of the budgeting and policy-making process within Government.

We are exploring a range of options for the methodology. One extreme is the concept of a traditional input-output model of the economy, which could be adapted. Another option is a more dynamic model that aims to capture a range of fiscal and social interventions and other items of data that capture particular practices. We are considering options within that range and will come to final conclusions as a consequence.

I stress that I want the process to be seen to be dynamic and I am happy for there to be interaction with the committee about it, either formally in an evidence-gathering session with my officials who work in the area, or informally, perhaps in the form of a workshop in which the committee could be involved in order to understand the different choices and dynamics that exist. I am happy for that to be undertaken, although it is probably best to wait until the international workshop has taken place towards the end of November.

**The Convener:** You say that the carbon assessment tool should be robust, credible and easy to use. Has the Government identified any other attributes that are necessary?

**John Swinney:** Those are the tests that I would deploy—the tool must be robust, credible and practical. I would have thought that those were the key ingredients to ensure that we can readily embed such an approach in the policy-making process of Government. That will be critical in ensuring that the tool is effective in the budget and policy-making processes in the Government.

**The Convener:** I suppose that what I am driving at is this: what are the attributes or characteristics that a tool needs in order for it to be considered robust and credible? For example, should it link with other Government policy frameworks such as strategic environmental assessment and the best-value regime? Should it be clearly auditable? The Government must have reached a greater level of detail in establishing what the assessment tool needs to be like if it is to be widely perceived and recognised as credible.

**John Swinney:** I do not think that I am in a position to go beyond what I said to you a moment ago. If I did so, I would get into the realms of prejudging what the carbon assessment tool will look like. I am not in a position to give the committee an answer to that because the answer

does not exist at the moment. We are working with the international workshop to put that together for construction of the high-level assessment profile. I will be happy to share that with the committee as the discussion takes its course.

I do not want to create an assessment tool that cannot be comprehended by those who are trying to undertake different policy choices. There would be no point in such an invention. I want a tool that can readily be assessed by parliamentary committees, external advisers and organisations such as the Sustainable Development Commission, the Energy Saving Trust and the committee on climate change that will now be part of the statutory framework. All those organisations will be able to see a robust mechanism that the Government has put in place to enable people to make judgments about the effectiveness of the interventions that we make. That must be the key test of the carbon assessment tool.

**The Convener:** You mentioned several times the international workshop that is to be held. Who will participate in it? How were the participants chosen?

**John Swinney:** I can give you some information on the workshop, but I cannot give you a list of everyone who will be there. [*Interruption.*] I can tell you who will be there—sometimes information just comes along. It might be better if I issued the full list of attendees to the committee. It will include a cross-section of people from the academic community, including Jan Bebbington from the University of St Andrews, who will be familiar to members from her work on the Sustainable Development Commission. Also present will be representatives from the Carbon Trust and the sustainable Scotland network, a variety of international commentators from, for example, Statistics Netherlands and Statistics Denmark, and a representative of Her Majesty's Government's Department for Environment, Food and Rural Affairs.

The event is scheduled to take place on 24 and 25 November 2008, when a variety of issues will be considered, including the concept of the carbon assessment project, how it will interact with our policy-making framework and how public spending and the budget interact. Other carbon assessment projects will be considered, such as have been carried out by the National Assembly for Wales and other jurisdictions. I am certainly happy to give the committee more detail on that.

**The Convener:** That would be helpful.

**Cathy Peattie (Falkirk East) (Lab):** The idea of an international debate makes a lot of sense. I am just back from the world summit of regions, a conference that I attended on behalf of the committee, at which we heard about what some of

the world's regions are doing. Positive action is being taken in Wales and in other areas in the world. Why is Scotland not represented at that table? It is a network for regions rather than countries, but it produces some excellent material. You are absolutely right that no two toolkits are exactly the same, but I am sure that we would benefit from being at that table. What discussions have taken place about that?

**John Swinney:** I cannot tell you definitively why we are not at that table—I will investigate and advise the committee. However, we will be plugged into the thinking behind the event. Enough wheels will have to be invented without our having to reinvent any that already exist, so I assure Cathy Peattie that we will be fully aware of the dialogue that emerges from that event and will participate fully in seeking to understand it. Philip Wright will say a bit more about that.

**Philip Wright (Scottish Government Climate Change and Water Industry Directorate):** The event that Cathy Peattie is talking about was held in St Malo. We engaged with the United Nations Development Programme, which was to engage in that process, but we decided that we might stretch ourselves too thinly if we were to get directly involved in it. However, we maintain regular contact with our Welsh colleagues, who were represented at the event, and they are giving us feedback on it. We decided to focus on our existing alliance with the states and regions, which allows us to engage with the likes of Bavaria, Catalonia, California and the Australian states. We or Mr Stevenson will meet those states and regions in Poznań, when we will seek to make something of and to engender interest in the carbon assessment work that we are doing.

**Cathy Peattie:** Some of those states participated in last week's conference.

**The Convener:** We have discussed the carbon assessment tool. Now we must examine this year's budget, on which Rob Gibson will open the questioning.

14:00

**Rob Gibson (Highlands and Islands) (SNP):** All the witnesses at last week's committee meeting agreed that it was not possible from the information in the budget document to evaluate fully the climate change impact of the draft budget 2009-10. Do you have a view on the overall impact of the proposals that are set out in the draft budget 2009-10 on the Scottish contribution to addressing climate change?

**John Swinney:** As your witnesses made clear last week, it is difficult to provide an overall assessment of that factor. There will be different examples in the different components of the



budget, which will provide us with greater clarity about the climate change impact. However, it is difficult to establish an overall position at this stage.

**Rob Gibson:** To what extent will the programmes that are funded in the draft budget 2009-10 assist the Scottish Government in meeting its climate change targets?

**John Swinney:** The Government is taking forward a range of interventions that cover a variety of policy areas. Some will be specifically badged as measures to tackle climate change, such as the climate challenge fund. We will also bring forward interventions in relation to support for the renewables sector and microgeneration capabilities. Into the bargain, there will be energy efficiency measures and a significant investment in the transport system to support that approach.

Crucially, policy initiatives will be taken forward across the range of Government policies. At the weekend, the Deputy First Minister illustrated how we are proceeding with our policy making by ensuring that health boards will have access to resources to reduce energy bills and carbon emissions. That is a good example of how, in different areas of the budget that one would not readily identify as climate change budget lines, thinking is going on into how to deploy public expenditure to support our efforts to tackle climate change. That will continue throughout the budget process.

**Rob Gibson:** Without a carbon assessment tool these will be impressions, but what processes have been established to allow an assessment to be made of carbon impacts in the Government's spending plan? You have highlighted an example from the health boards. Will a checklist of those be available?

**John Swinney:** That brings us back to an issue that I discussed in a different way with the Equal Opportunities Committee a couple of weeks ago. Mr McNulty and I are familiar with such issues from our long stint on the Finance Committee. The budget must be set out so that it is clear and meaningful. The difficulty with presenting the budget to show the impact that it will have on climate change or how much is being spent to tackle climate change—or, in the case of the Equal Opportunities Committee's concern, how much is being spent to tackle equal opportunities issues—is the fact that we would have to present the budget in a multifaceted way, and it would become difficult to penetrate.

I am happy to highlight areas in which budget spend will be targeted and focused on tackling some of the significant policy questions. However, to present the budget in such a way would add to the complexity of a budget process that the

Finance Committee has encouraged us to keep as clear and transparent as possible.

**Rob Gibson:** Do you not think that there will have to be more than a monetary way of measuring the budget? Will there not have to be a carbon balance sheet as well, which will not be measured in monetary terms?

**John Swinney:** That is essentially where I am going to with the carbon assessment tool, to be honest. The type of end product that I imagine we will aim to achieve should provide us with a picture against which we can not only test, in the traditional budget monitoring fashion, whether we are spending resources within a particular budget but apply other tests as well. Clearly, the carbon assessment tool will enable us to do that once it is available.

**Rob Gibson:** I was exploring how the auditors might be able to weigh things up once this new step forward is taken. Given that you are confirming that there will be more than just a monetary measurement of budgets, we will need to be able to start to pin these things down. Until we have the carbon assessment tool, would it be possible to have a carbon commentary in the meantime, as witnesses suggested last week?

**John Swinney:** A carbon commentary?

**Rob Gibson:** In short, it would be a qualitative assessment of a budget line's likely positive, negative and unknown direct or indirect impacts on climate change.

**John Swinney:** Conceivably, we could have such a commentary. That would be what it would be—it would be a commentary—and would be the subject of discussion and analysis. Whether or not that would add to the transparency of the budget process, such a commentary would certainly not be as effective as the carbon assessment tool that the Government is heading towards in the direction of its thinking. However, if the committee wishes to advance that proposition, I will be happy to consider it.

**Rob Gibson:** That could be an interim step to move us in the direction of having a full-blown assessment tool.

**The Convener:** Was any exercise undertaken to examine the options for presenting additional information for the 2009-10 draft budget?

**John Swinney:** As I made clear during last year's budget process, the Government recognises that we need to secure both parliamentary agreement to the budget and parliamentary comfort with the analysis within the budget provisions. If Parliament has suggestions of that type on how the Government can enhance the information, I will be happy to consider them. I have done as much as I can to address the

suggestions that the Finance Committee made last year on the presentation of information in the budget. I state that to illustrate that I am more than happy to address any suggestions that committees make as part of the budget process to enhance the quality of information that is available.

**The Convener:** Further to Rob Gibson's suggestion of some sort of commentary on the carbon impact of the budget, was no exercise undertaken to consider the options for what might be provided for the 2009-10 draft budget?

**John Swinney:** No. I concentrated resources on developing the carbon assessment tool, as I had told Parliament I planned to do. Obviously, if there is a parliamentary appetite to do something in addition to that, I will be happy to consider the proposal.

**Alison McInnes (North East Scotland) (LD):** Good afternoon, cabinet secretary. A number of our witnesses last week argued that considering only the amount of expenditure on any particular budget item was inadequate for evaluating the outcome of that expenditure from a climate change perspective. It was suggested that detail is needed on how money is spent. For example, the affordable housing programme has the opportunity to deliver quite a significant climate change reduction if it is applied properly, but that is contingent on the carbon life-cycle of the design and building of the houses, so a poor design could actually increase our impact. Is that a valid criticism of the draft budget that is in front of us?

**John Swinney:** I do not think that it is a valid criticism of the budget that is in front of us, but it is a valid and important point of view. It goes without saying—because it runs throughout the thinking behind the Government's budget and the approach that we have taken, for example, to the national performance framework, and was an implicit part of the spending review, which governs a great deal of our activities—that we are moving from the focus on inputs, which dominated policy making in Scotland for many years, to, essentially, a focus on outcomes. Bluntly, what we deliver is what matters, and that is what we should be judged on.

The example that Alison McInnes gives of the affordable housing programme is one with which I take no issue. If we are building new housing stock, we have to build it in the most sustainable fashion and to the highest building standards. Those issues are kept under constant review to ensure that the policy-making process in general is not only a driver of the budget process but makes sure that we spend our resources in the most sustainable fashion. The example that has been cited is a good example of an area in which we must ensure that we spend money effectively to deliver the correct outcome, which is to create

sustainable housing stock and to reduce the emissions created by that stock.

**Alison McInnes:** We would like to get to a much clearer and more transparent budget that links directly back to policy making. That would allow you to demonstrate that the policies that you put in place, in particular to tackle climate change, flow through into the budget process. In the past there has sometimes been a disconnect. Is there scope for more information to be included in subsequent budget rounds on the expenditure in particular budget lines?

**John Swinney:** There will always be scope to add more information into the budget process. I come back to my reflection on the work that Mr McNulty and I undertook in the Finance Committee in previous sessions of Parliament. The challenge that we are trying to meet is the fact that there is a demand both for more information and for simplicity within the budget document. I accept that there is a need for us effectively to scrutinise the policy choices that are made to determine whether the totality of the expenditure and the manner in which it is spent support the Government's wider objectives on carbon emissions.

**Alison McInnes:** I will finish on that issue, because it is extremely important. There is cross-party support for the strong commitment that has been made and for the challenging targets that you indicate you want to meet. In order to meet those targets by 2050, we have to start making year-on-year progress now. If we cannot identify what is happening within the budget for another two or three years, that will obviously cause a lag, which is a problem. The sooner that we can have more clarity on the impact on the budget and on the complex interrelationships between all the different budget heads, the better.

**John Swinney:** I referred in my opening remarks to two tiers of work that we are undertaking on the carbon assessment tool. One is the high-level assessment of the total budget impact, which is a particularly challenging task. It is easier and more practical to undertake the second tier of work that I outlined, which is the individual level assessment of the carbon impact of new programmes and priorities, because certain policy interventions can be more neatly compartmentalised and assessed. That is a tangible proposition and it could be done relatively easily. The challenge becomes greater the further up the food chain that we decide to go in respect of the total budget, because a significant amount of consideration requires to be given to how a figure can be arrived at. For example, if we wanted to test the carbon impact of the £100 million acceleration of capital investment in the Government's capital programme to deal with the

economic climate we could pretty readily assess that—I offer that example in the hope that such an assessment could readily be done. If the committee were to ask me whether I could do that for all budget lines between now and the end of the month, I would have to say that I could not, but we could readily develop analysis of particular components of the budget.

14:15

**The Convener:** The natural follow-up question to that statement is, will you?

**John Swinney:** If the committee wanted the Government to look at a limited number of projects, I would be happy to give consideration to how and when that could be done and to advise the committee thereafter.

**Alison McInnes:** Much of the budget is indirect spending—funding of health boards, councils and so on. That further layer makes it difficult to analyse whether spending is helping to deliver what we seek. What discussions have you had with other authorities about the climate change agenda?

**John Swinney:** Different elements of public service are now able to take initiatives to support our direction of travel. I cited the example of the Deputy First Minister's announcement at the weekend, which was targeted at health boards. The climate change agenda does not stop at the border of the Scottish Further and Higher Education Funding Council, if I may use that as an example. We must ensure that all public organisations play their part in supporting the Government's agenda of reducing emissions. The process of dialogue with all agencies will focus on the contribution that they can make to that agenda.

**Des McNulty (Clydebank and Milngavie) (Lab):** There is a danger of box ticking in this area, although it is important that you get the message across to every agency and aspect of government that attention must be focused on climate change. The areas in which you can make a big difference are transport, energy efficiency, and energy generation and transmission—the big-ticket areas in which scope for emissions reduction is biggest. Is it possible for us to identify in those areas—not all of which figure heavily in your formal budget—how we will make the progress that we seek towards achieving the emissions reductions that have been called for? Can you show how in other, related areas policy is taking account of transport and energy issues?

I will give you one example. You were right to make the point that it is highly desirable that new affordable housing is built to the highest possible standards. However, it would also make sense for

affordable housing to be built near transport interchanges, so that we do not create housing in areas where people are automatically reliant on the private car for transportation. Is it possible for us to have a direct input into locating new affordable housing in places where people have opportunities to use alternative, renewable energy systems such as small-scale hydro and wind? I am interested in the extent to which policy is joined up. You made the point that you cannot do everything, but can you highlight the information that we need about the big-ticket areas in which we can make big differences? Can you show us how the Government is joining up policy across the different strands, so that affordable housing takes account of transport and energy issues and contributes in a constructive way to meeting overall objectives?

**John Swinney:** I agree almost entirely with your analysis. You suggested that there was a danger of box ticking, but the analysis that is undertaken must be meaningful—we have ticked enough boxes in Scottish policy making. As a result—and I also say this in response to Mr Gibson's point—we have to use the analysis that emerges to influence policy choices.

In citing transport, energy generation and energy efficiency as examples, Mr McNulty has certainly highlighted the headline areas that could be tackled. Indeed, I would add housing to that list. However, he might be missing the point. The effectiveness of spend and the contribution to reducing emissions must be assessed in all areas of public expenditure because, without such assessments, we might well build unsustainable public infrastructure and prisons, for example, or houses in the wrong place, away from public transport networks and so on. Such propositions are completely valid.

That brings me on to our aspiration to joined-upness. The theme might be familiar, but I must stress that the Government is doing its level best to secure a degree of complementary planning across different areas. That approach is best illustrated by the responsibilities of greener Scotland's director general Richard Wakeford, whose job is to see whether the whole of Government is taking the sustainability agenda to heart. That means interrogating certain projects and perhaps coming to the conclusion that they are not moving in the right policy direction. That on-going aspect of policy making will be made a lot easier if all aspects of Government are thinking about wider sustainability issues. Moreover, the provisions in the proposed climate change bill, which I assume this committee will be immersed in, will become particularly relevant in every area of Government.

**Des McNulty:** In that case, instead of trying to provide an assessment procedure for every aspect of the budget, you might find it more relevant to produce a sustainability report linked to the budget that shows how your choices are driving towards sustainability.

**John Swinney:** I hope that the carbon assessment tool will provide us with a global assessment of our performance. As I said in response to Alison McInnes, certain areas are more readily assessed at an individual policy level, and we are happy to explore the matter with the committee.

**The Convener:** What about the mandatory nature of the assessment tool?

**Des McNulty:** I thought that we had sorted that point.

**The Convener:** Okay. Cabinet secretary, what is your response to the proposition that the assessment tool become a legislative requirement, which is something that a number of witnesses last week agreed with?

**John Swinney:** Subject, of course, to the Parliament's consent, there will be a mandatory framework for emissions reduction, but I have given no consideration to the status of the assessment tool. In light of the committee's views, however, I certainly will do so.

**The Convener:** So you are open-minded on the issue.

**John Swinney:** I will certainly consider the point.

**Alex Johnstone (North East Scotland) (Con):** You have already said that you are aware of the evidence that was given last week. I hope that you are also aware that, among the witnesses that we heard from last week, there was a feeling that the budget was very much business as usual. When I questioned them many of the witnesses were able to give a list of things that they thought were positive about the budget in relation to climate change emissions, but there was also a feeling that the budget fell short of the type of budget that would be required to deliver the significant changes that are necessary to meet the climate change targets. How do you respond to such criticism?

**John Swinney:** There is nothing "business as usual" about my budgets. The Government set out a strategic direction in the spending review in 2007. It was deliberately cast as a three-year programme for the remainder of this parliamentary session. I suppose that, in that respect, the contents of the budget are not a particularly great surprise. When we set out the spending review last November, I placed significant emphasis on the fact that the budget focused on the

Government's five strategic objectives, one of which was to create a greener Scotland, which has at its heart the introduction of measures that would support a more sustainable Scotland. That lies at the core of the budget.

**Alex Johnstone:** Some of our witnesses last week expressed a worry about whether the budget gave as much importance to economic growth as it had been given in previous years. To what extent do you think that the draft budget allows for the decoupling of economic growth and carbon-equivalent emissions that would be required for sustainable economic growth?

**John Swinney:** I do not think that it should be a surprise that there is a growth focus in the budget, because the Government's purpose is to focus the work of Government and public services on increasing sustainable economic growth. That direction of thinking will underpin the work of the Government. As I have made clear on many occasions, we are working to deliver the complete proposition of sustainable economic growth. That will underpin the choices that we make as an Administration about the way in which we invest resources—I refer to the work that we are doing to support the renewables sector as an example. The committee will be aware—this has been very much in the news—of the financial support that we have given to the Tullis Russell company in Markinch, which wants to invest in an extensive biomass project. That will certainly lead to economic growth, but that growth will be more sustainable because the biomass plant will fuel the Tullis Russell operation and will have the capacity to sell power back to other units.

That brings me to Mr McNulty's point. When we are taking forward new housing developments, we have a great opportunity to deploy more locally based energy generation mechanisms. I opened a wood chipping plant in my constituency the other week. Wood that has been left around in cleared forests is being transported a couple of miles to a wood chipping plant and then transported another couple of miles to go into wood fuel heating systems and boilers for schools and affordable housing developments. The carbon footprint of that initiative is absolutely fantastic. Mr Johnstone and I attended the opening at Macphie of Glenbervie Ltd of a great biomass wood fuel heating project in an industrial context. The Government will take forward a number of measures that will support growth and sustainability of businesses and which will focus on energy sustainability into the bargain. That is the type of approach that we want to be characterised as taking.

**Alasdair Allan (Western Isles) (SNP):** The carbon balance sheet has been a work in progress since December 2006, as you said. Have you any

further information on that—especially on any changes of emphasis since the change of Government?

14:30

**John Swinney:** We have not changed the direction of the project since we came to office. We adopted the national transport strategy, which as Dr Allan correctly suggests, came from our predecessors. We thought that it was a robust piece of work, so we are taking it forward. The carbon balance sheet will be part of that. However, as I said to the convener, we have introduced into the mix the concept of the carbon assessment tool. The carbon balance sheet was very much part of the transport policy, but the carbon assessment tool will have much wider implications.

**Alasdair Allan:** For the carbon assessment tool, can lessons be learned from the carbon balance sheet?

**John Swinney:** Yes—there is a full read-over between them. Individual assessments will be a component of the carbon assessment tool. The thinking that has gone into the carbon balance sheet sits comfortably with the notion of exploring the carbon impact of an individual project or programme.

**Alasdair Allan:** Various witnesses have offered the committee their views on how to achieve the environmental aims that the Government has set for itself and for them. What has the Government done to support the public sector to achieve its aims at institutional and agency level?

**John Swinney:** In answer to Mr McNulty, I spoke about the role of the director general with responsibility for greener Scotland. That role illustrates how the Government is focusing on this policy. Right across Government, we are promoting a wider understanding of the requirement for all aspects of public service to take carbon emissions into account in their policy choices.

Other ministers are also considering such initiatives; I spoke about what the Deputy First Minister is doing in relation to health boards. Over the past 18 months, I have been struck in my discussions with local authorities by the willingness—no, the enthusiasm—of local authorities to ensure that they play their part in tackling carbon emissions. For example, a number of local authorities have asked ministers in the new Administration to agree with the climate change declaration work that they undertook with the previous Administration. Those local authorities are simply making the point that, with the change of Government, they want to reinforce their commitment. The contribution that many

individual local authorities can make to tackling carbon emissions will be reflected in their single outcome agreements.

**Alison McInnes:** I want to discuss some issues that we discussed with you last year. You acknowledged the role of regional transport partnerships in ensuring a more cohesive approach to transport in their regions. Despite the misgivings of this committee and many others, you chose not to give direct capital funding to the regional transport partnerships last year, other than the Strathclyde partnership for transport, and you disaggregated that capital funding back to local authorities. This committee recommended that the Government reflect on how well the new arrangements were working in practice. Has the Scottish Government done that?

**John Swinney:** Yes, I have. That is one issue that I monitor as part of the relationship between the Government and local authorities and as part of Mr Stevenson's responsibilities on regional transport partnerships. The Convention of Scottish Local Authorities and the leaders of the regional transport partnerships, when I met them last, made it clear to me that they see their role as providing a gathering place for thinking from within local authority areas.

The arrangements that the Government has put in place to devolve to individual authorities the resources that were formerly available in capital grants to regional transport partnerships allow authorities the flexibility to pool resources to support cross-boundary projects. That is the spirit in which regional transport partnerships were established and with which the Government takes them forward.

**Alison McInnes:** One reason why regional transport partnerships evolved—many began as voluntary organisations—was the need to work more cohesively and coherently to deliver transport projects on time. I detect a loss of momentum over the past year and, rather than speeding up delivery, the RTPs have—as you said—become a clearing house. However, there is always the need to go back to each authority to agree funding, which happens on a project-by-project basis rather than to help to deliver a coherent plan. Will you reflect on that?

**John Swinney:** I can say only that I was struck by the representations that COSLA and the regional transport partnerships made to me at a meeting at St Andrew's house some months ago when they said that they see themselves as organisations that gather together the common interests of individual local authorities. It is clear to any observer of this Administration's style and direction that we attach a premium to local authorities making their own choices. They can choose to co-operate in certain areas, and we

should not put in place a layer of decision making that second guesses or redirects their priorities. The existing structure works, and I do not see anything in the current constitution of regional transport partnerships that prevents local authorities from working together as they see fit.

**Alison McInnes:** I accept that nothing prevents the local authorities from working together, but the question of whether something hinders decision making is still up in the air.

It is clear that we need regional strategies to complement the national strategy and to provide a link between it and the local strategies at council level. The committee recommended that the Government provide a statement to the committee in advance of this year's budget on how each RTP has been funded—whether the expectation was met that the funding to local authorities would flow directly into RTPs—and whether it has delivered on its objectives. Has that work been carried out, and can it be made available to the committee?

**John Swinney:** We certainly maintain an active dialogue with regional transport partnerships. Their strategies have been approved by ministers, and if the committee wants further information about the funding and operation of regional transport partnerships and makes a specific request to ministers, we will answer it.

**Alison McInnes:** That would be most helpful as that was a recommendation in last year's report.

**Cathy Peattie:** In its budget report last year the committee noted that the budget for concessionary fares was under intense pressure, due to the scheme's popularity. The committee recommended close monitoring of the concessionary fares budget and noted that monitoring would be made more difficult by the lack of accurate information. Will you update the committee on how take-up of the scheme is being more accurately monitored?

**John Swinney:** The committee will be aware that access to national concessionary travel is through the entitlement card. The card is comprehensively deployed and the scheme is comprehensively used. We are rolling out smart card-enabled ticketing equipment, which will allow us better to monitor uptake of the scheme, and we expect that process to be completed during 2009. That will give us a great deal more accurate information about the utilisation of the scheme, on which basis the Government will be able to report further to the committee on the scheme's performance.

**Cathy Peattie:** Thank you. The committee would welcome being kept up to date on the matter.

The budget allocation for concessionary fares does not appear to have increased since last year's draft budget. Will spending be sufficient to meet the demand for concessionary travel?

**John Swinney:** Yes, but I will keep factors under review, as is the case with all aspects of the budget, and I will put forward any changes that are required at the autumn or spring budget revisions—assuming that the budget is approved by the Parliament.

The concessionary fares scheme operates in the context of Government commitments to expand the scheme. We have already undertaken to expand the scheme to take account of veterans' interests. We have guaranteed the same level of access to the scheme and all existing entitlements in relation to routes and frequency of travel.

**Cathy Peattie:** Expansion of the scheme is welcome. Has further consideration been given to community transport and the discrimination that disabled people face in accessing transport?

**John Swinney:** I recall discussing those issues with Cathy Peattie when I gave evidence to the committee last year, and we continue to consider them. They are not easy questions to resolve, because they would involve expansion of the scheme and would require great care to be taken in relation to additional monitoring of the scheme's operation. I continue to examine the area.

**Cathy Peattie:** Last year, the committee recommended the exploration of opportunities for enhancing integration between commercial bus services and services that are provided by public sector providers such as health boards and education authorities, to maximise the availability of bus services, especially to fragile communities. What progress has the Scottish Government made in that regard?

**John Swinney:** My answer will be very much in the spirit of my earlier exchange with Mr McNulty. The Government is working across portfolios to ensure that resources that are used in one compartment are not viewed as being utilisable exclusively in that area and not in other areas of policy. Boundaries and barriers that existed in many aspects of the delivery of public services are beginning to be dismantled as we try to encourage greater consideration among different policy agendas of how facilities from one service might be utilised in another. I would be happy to provide in writing examples of where that is happening.

14:45

**Rob Gibson:** In the interest of maximising the use of public services, and moving on from using the old term "joined-upness" to "connectivity", are you likely to explore whether people should be

able to use their concession cards on the railway? If you are using a train, you are not using a bus.

**John Swinney:** The first thing that I should say, Mr Gibson, is that I never had you down as a moderniser until you made your remark about connectivity. [*Laughter.*] There is always a startling revelation at every committee appearance.

As the committee knows, the previous Administration established the concessionary travel scheme by amalgamating the schemes in different local authority areas. In some parts of the country, there was an entitlement to use rail services and in others there was none. The view was taken that the way in which to guarantee the comprehensive access that now exists for those who use the concessionary travel scheme was to use the bus network. The Government still holds that view. The scheme is extremely well utilised around the country and the Government welcomes that participation in the scheme.

**Rob Gibson:** Buses in the far north take even longer than the train takes, and the train takes more than four hours between Inverness and Wick. Perhaps modernity ought to be extended to all parts of the country.

**John Swinney:** I believe that I have a commitment to address the annual meeting of the Friends of the Far North Line in 2009, and I will have the opportunity to explore the issues then. I look forward to seeing Mr Gibson and discussing the issues on that occasion.

**The Convener:** I think that some haggling is still required on that one.

**Des McNulty:** Cabinet secretary, your colleague the Deputy First Minister announced today some support for walking, particularly in the south-west of Glasgow, including a new initiative to encourage exercise and to tackle obesity. Last year, the committee recommended a gradual transfer of resources from the health budget to the active travel line in order to realise the public health benefits of investment in walking and cycling. However, that budget has not shifted. Are you not persuaded of the benefits to be gained from increasing the active travel budget line or is the matter still under investigation?

**John Swinney:** In a sense, Mr McNulty makes my point for me by citing the example of the initiative that the Deputy First Minister set out today. We have to be careful about taking the view that the only money that we spend on walking or cycling comes from budget lines that include those things in their titles. I made the same point about climate change—the money that we spend to tackle climate change comes from a variety of different sources.

I would be persuaded by Mr McNulty's argument

if the Government was not focused on delivering on the outcomes that we have set out and if portfolio ministers in other areas were unwilling to support some of these central themes of Government policy making, but that is not the case. The Government's focus on outcomes is evidenced in the way in which we deploy our resources and ensure that different projects are supported. In the example that was mentioned, the Deputy First Minister sets a fine example to us all.

**Des McNulty:** You will be aware that Spokes proposed a transfer of resources from the trunk roads budget to support for cycling. What is your view of that proposition? Does it mark a way forward and are you inclined to support it?

**John Swinney:** I have seen the material from Spokes. As an enthusiastic cyclist—although not one who gets on his bike as much as he used to—I am very much attracted by the lines of argument that Spokes puts forward.

However, I return to the point that it is terribly easy to look just at the budget headlines and not examine what is within individual budget lines. A proportion of the trunk roads budget is currently spent on supporting the development of cycle routes adjacent to trunk roads. For example, if we are improving a section of a particular trunk road, it is likely that provision will be made within the project to enhance the cycle network. A range of such provisions are under way. A contribution has been made from the trunk roads budget to support the development of cycle routes on the A82 between Oban and Fort William. A preferred route on the A82 from Fort William to Inverness and the Great Glen section is out to public consultation, and there will also be a commitment in relation to that.

The point is well made that we must support the development of cycle routes. However, there is already provision in the trunk roads budget to support the development of the cycle route network. The Government undertakes that in partnership with other organisations.

**The Convener:** Thank you. I will follow up on that question and broaden it out a little. The witnesses from whom we heard last week covered a number of issues that they considered positive in both the draft budget for 2009-10 and in the longer-term commitment to the carbon assessment tool. However, when we asked them what areas of weakness there were, there was a pretty broad consensus that active travel—cycling and walking—and domestic buildings—the retrofitting of the housing stock—were two areas of weakness. The witnesses mentioned that the active travel budget line is only £11 million, which is a pretty small percentage—about 1 per cent—of the trunk roads budget. One of the witnesses asked for an increase in that budget line by a

factor of 10, 100 or 1,000, although that might not be possible overnight.

There was broad consensus among our witnesses that we could do a lot better in those two areas in Scotland. If elements of the trunk roads budget already support the active travel budget line, can specific, detailed information be provided to make that clear and transparent for people in looking at the budget? Is the Government open to the idea of doing more and to introducing some additional measure?

The figure of £100 million was mentioned by Duncan McLaren of Friends of the Earth as a ball-park figure to indicate substantial determination to make progress. We all recognise that ambitious climate change targets are not going to be delivered easily. If they are ambitious, they will be challenging. The mood of several of our witnesses was that this year's budget—not just the long-term commitments—needs to show ambition in the areas of active travel and retrofitting the housing stock to show that the Government is up for a bit more challenge.

**John Swinney:** I am in danger of repeating myself. There will be elements of spending in other categories that are not immediately obvious. There is a budget line of £11 million to support sustainable and active travel and there is also a budget line of £9 million for cycling, walking and safer streets—that fund is currently ring fenced. If we add to that what is going on through the trunk roads budget, what will be going on through individual local authorities' contributions to developing some of these activities and, as Mr McNulty reminded us, what the Deputy First Minister is doing in the health field, we can see that there are a variety of different interventions. While I understand that last week's witnesses would have looked at the budget on the face of it, that does not always tell the entire story about where investment is being made, when we drill down into specific details. I am happy to provide the committee with information on expenditure in other areas that would support that activity.

On the second point, about what more we can do, in a sense I am in the committee's hands. I have put forward a balanced budget on behalf of the Government. We are all familiar with the rules of the budget process. If we put more money into one area, we have to take it away from another. I feel as if I have got the balance of the budget right but, as I made clear to Parliament last year, I am a finance minister in a minority Government and I have to take Parliament with me on these questions. As always, in the course of the budget process the Government is prepared to listen to alternative perspectives, either from the Finance Committee, which will provide us with its report towards the end of the month, or from other political parties.

On the final point about the retrofitting of housing stock, that is perhaps one of the areas where we can make the greatest progress and ensure that we make as swift a contribution to tackling emissions as we can. The existing housing stock will be one of the largest factors. If we were to set out a set of measures on climate change, tackling the energy inefficiency of the existing housing stock would be among the top priorities.

The committee will be familiar with the discussions between the Minister for Communities and Sport, Stewart Maxwell, and the power companies—Mr Maxwell and I had further discussions on the topic last week—to try to ensure that the resources that the power companies are obliged to deploy in Scotland to tackle the issue of energy efficiency are satisfactorily deployed and that they make a real impact. There is some collaborative work that we will be able to take forward, which I am sure will be the subject of discussion in the course of the budget process. It will demonstrate how much that channel can deploy commitments beyond the specified energy efficiency commitments in the Government's budget. Through building standards and other aspects of the regulatory framework, we are encouraging adequate steps to be taken to tackle the issue of energy efficiency in our housing stock.

**Des McNulty:** You said that you were open to suggestions. There is a view among the witnesses, and perhaps among committee members, that we need to look again at cycling and walking allocations. I do not think that there is any particular blame attached to this, but past changes in the nature of the public transport fund and RTP funding have diminished the amount of money going to cycling. There is perhaps a need to rebalance that in a positive direction.

If the committee were minded to put forward proposals to increase expenditure on cycling, it would be helpful if the Administration could give us a sense of what the opportunity costs associated with that might be. It is difficult for a committee to put forward practical propositions if the Government can then quickly come forward and say, "Do you realise that this will mean that a major transport project that we would all otherwise support might have to be sacrificed?" I do not know what mechanism there is for a dialogue around providing increased resources for cycling and perhaps walking, but committee members would like to examine that issue and explore how it might be best carried out through the budget process.



15:00

**The Convener:** I cannot help but remind Mr McNulty that it might be a major transport project that only most of us would support.

**Des McNulty:** It might well be, but at least we would know.

**John Swinney:** I think—in fact, I am absolutely certain—that Mr McNulty was present when I had the opportunity to address Parliament, during the Liberal Democrats' debate last Thursday, on the importance of ensuring that budget propositions are fully anchored in changes that are put forward. However, I reiterate that I remain happy to engage with committees on such questions.

It is an inescapable fact—as Mr McNulty will know—that within the budget framework, it is down to me to find the resources from somewhere else. The choices are never easy, because, as Mr McNulty will also be aware, there are many demands for money in a variety of different areas. However, I am sure that once the £800 million tax cut proposal has been fully considered by Parliament, we will have all the answers.

**Rob Gibson:** Can the cabinet secretary enlighten us about the discussions on the health budget, with regard to walking and cycling? That might be a source of aid in relation to the particular debate that we have just been having.

**John Swinney:** In the health budget, there are a variety of different interventions through which ministers are encouraging and enabling people to lead healthier lifestyles. That is an implicit part of the Government's policy direction for the health service. The Deputy First Minister was encouraging one such project today, and there are examples of such encouragement in health boards throughout the country. There are also opportunities as part of the rehabilitation of individuals as a consequence of illness for the health service to deploy some of its resources in encouraging that to take its course.

**The Convener:** I see that there are no final questions; no one wants a last crack of the whip. I thank Mr Swinney for his time in giving evidence to the committee, and I thank his colleagues for joining him.

15:03

*Meeting suspended.*

15:08

*On resuming—*

## Scottish Water Annual Report and Accounts 2007-08

**The Convener:** Agenda item 3 is our second evidence session on Scottish Water's annual report and accounts for 2007-08, on which we have heard evidence from Waterwatch Scotland and will hear evidence from Scottish Water and Scottish Water Solutions in early December.

Today, we will take evidence from the Water Industry Commission for Scotland and the drinking water quality regulator for Scotland. I welcome our panel of witnesses: Sir Ian Byatt, Craig MacKenzie and Colin McLaren. They will make some opening remarks.

**Sir Ian Byatt (Water Industry Commission for Scotland):** Thank you for inviting the commission to give evidence. May I say how nice it is that tap water is provided for our delectation—I have been to many places where bottled water has been provided.

Our role is to act within the three statutory duties that the Scottish Parliament put on us in the Water Services etc (Scotland) Act 2005. The first duty is to ensure that the prices that customers pay are based on the lowest reasonable costs. That is a technical function. The second duty is to ensure that customers and the environment get from Scottish Water a good delivery that is monitored properly. The third duty is to introduce retail competition in the water market for non-households—for all businesses and all public services.

What have we done in pursuit of those three objectives? There are four outcomes. First, prices to household customers are rising by less than those in any other part of the United Kingdom and certainly by no more than those in any other part of the kingdom. Scotland's water utility bills are rising by less than those in other parts of the kingdom, which is a great achievement.

Scottish Water's levels of service to its customers have improved substantially. A few years ago, Scottish Water's service was inferior to that of the range of companies in England and Wales, but it has improved significantly and is now right in the pack with the England and Wales companies.

The capital programme, which started slowly in 2006, has been accelerated substantially. However, we are keeping a beady eye on that programme's delivery. By delivery, we mean the sign-off of projects by the quality regulators. Our

statute sets no sustainability objective, but we believe that we should act strongly with the quality regulators—I am delighted to be here with Colin McLaren this afternoon—and that capital projects are not completed until the quality regulators sign them off. That is an important step.

As for retail competition, we believe that about 30 per cent of non-household customers in Scotland now have a better deal than before.

We are pleased with how things are going. We are not complacent, but we think that Scottish Water is performing well as a business that serves the Scottish people and we want to keep it that way.

**Colin McLaren (Drinking Water Quality Regulator for Scotland):** I will make clear what my role is. I am the drinking water quality regulator for Scotland and I was appointed by the Scottish ministers under the Water Industry (Scotland) Act 2002. The office is part of the Scottish Administration. My general function is to ensure that Scottish Water complies with its drinking water quality duties. I am also responsible for supervising local authorities' enforcement of the private water supply regulations.

I welcome the invitation to discuss Scottish Water's annual report and accounts.

**The Convener:** Sir Ian, you gave a general view of Scottish Water's performance in 2007-08. Would you like to add to that or would the other witnesses like to give their general view on Scottish Water's performance? Improvements have been outlined, but do you have further concerns of which you want the committee to be aware?

**Sir Ian Byatt:** One extra concern is leakage, on which much more action is needed. That is important for the economics of the operation and for climate change, because there is not much point in pumping water into holes in the ground. Scottish Water was set pragmatic targets, because we do not yet know the economic level of leakage, but it failed to meet those targets. Action must be taken to do better. This evening, the commission will talk to Scottish Water's board—in fact, I will go there immediately that I leave the committee—and leakage is one point that we will discuss.

**The Convener:** Would the other witnesses like to make general comments about improved performance or express concerns about performance?

**Colin McLaren:** I welcome the significant improvements that Scottish Water has made in recent years in drinking water quality when compared against the regulations. I am concerned that customers' perception is not being addressed

as well as it might be. I refer to the aesthetic parameters—issues such as taste, odour and discolouration. Although technically water may be acceptable and may meet all scientific standards, customer's perception is not quite what it should be.

15:15

**Alasdair Allan:** You mentioned leakage. Does the commission have available to it the sanctions to address the issue?

**Sir Ian Byatt:** We believe so. We must begin by establishing the facts properly. First, we need to establish the sensible economic level of leakage to which Scottish Water should aspire; work is still under way on that issue. Secondly, we must get proper monitoring of the progress that is being made. Thirdly, we must ensure that Scottish Water devotes enough effort to that. The chairman of Scottish Water has assured me that it believes that much more monitoring activity is required than took place in the past. At one time, monitoring was regarded almost as a Friday afternoon activity—it must happen earlier in the week. So far, there has been progress on all fronts. If we did not have sufficient powers, we would talk to the Government to ensure that we had such powers. For the moment, our powers are sufficient, but progress is rather slow.

**Alasdair Allan:** Is there evidence that the water industry has set itself harder, more ambitious targets on leakage every year?

**Sir Ian Byatt:** We have set pragmatic targets on leakage; so far, Scottish Water has failed to meet them. We must first ensure that they meet the targets that they are set. When we have better information on the economic level of leakage, we will move Scottish Water as fast as possible to that level. There is a huge deficiency of information in the area.

**Alex Johnstone:** In its annual report, Scottish Water talks a lot about value for money. Do you think that Scottish Water is delivering value for money, in an absolute sense, to its customers? Are there ways in which it could increase further the value for money that it delivers?

**Sir Ian Byatt:** It is always possible to do better on value for money. As human beings, we always seek improvement in what we do, so we have not got to the end of the road. However, Scottish Water has improved value for money considerably on the operating side. In the past few years, it has reduced its operating costs by about 40 per cent, which is a huge achievement. It has also improved its efficiency on the capital account. Now household customers are paying, on average, about £90 a year less than they would have paid if

that improvement in value for money had not been made.

A great deal has been done, but there is further to go—there always will be. I am seeking improvements not only on leakage, which I have mentioned, but on capital expenditure. The capital programme is very large, and Scottish Water is spending a lot of money. We want to be absolutely sure that that is being done efficiently and that projects are coming in, being delivered properly, being signed off by quality regulators and contributing to the environment and to customers.

**Rob Gibson:** Good afternoon. I have a further question about targets. In the ministerial objectives, Scottish Water is set essential and desirable targets. Desirable targets were considered achievable, given the finances that are available to Scottish Water. Has Scottish Water met all essential and desirable targets?

**Sir Ian Byatt:** Those are the essential and desirable targets that were set for the period from 2006 to 2010, which is not over yet, so we will not know whether Scottish Water has done all that until we do a proper audit, which can take place only after April 2010. So far, things are going well as far as levels of service are concerned—at the moment, Scottish Water is only fractionally short of the service levels target that was set for the whole period. On the capital account, as we suggested in our investment report, the jury is still out. We will see how that goes, but so far, so good.

**Rob Gibson:** In January, Alan Sutherland suggested that, from the commission's point of view, some of the targets that are set for Scottish Water are viewed as minimum acceptable levels of performance. In which areas are those different targets set?

**Sir Ian Byatt:** Some targets are about proper continuity of supply and whether customers' telephone calls are answered properly. Substantial improvement has been made in all those areas. Although Scottish Water is not yet as good as some of the English companies—I see no reason why it should not be as good as the best of the English companies, as there is nothing wrong with Scotland—it is moving in that direction, but further progress can be made.

Concerns exist in the areas that I have mentioned—leakage and the delivery of the capital programme. I am not talking about expenditure on the capital programme but its delivery. Delivery, not expenditure, is what matters.

**Rob Gibson:** Are there aspects of the targets that should be more challenging or aspirational?

**Sir Ian Byatt:** The process should work by regulatory period. We want to give Scottish Water a proper, sensible four-year period in which to

achieve its targets. We will publish draft price limits for the next period next June, when we will think about where Scottish Water should go next. Reviews of service levels are being carried out in England and Wales. We keep in close touch with our colleagues in England and Wales to ensure that we set Scottish Water targets that will make it as good as any other company in the kingdom.

**Rob Gibson:** I know that this is a perennial question, but given that Scottish Water is at a different stage of development and that it is playing catch-up with other companies in the UK, how is it possible to measure its behaviour and achievements against those of English and Welsh companies that have been engaged in the process for far longer?

**Sir Ian Byatt:** To its credit, Scottish Water has been catching up extremely well; it has shown that it is possible to catch up fast. As far as levels of service are concerned, Scottish Water is now firmly in the pack of English companies. It has shown that it can be compared quite favourably with English companies. The next stage is to ensure that Scottish Water improves its placing in that pack.

**The Convener:** I have a question about efficiency. I gather that the efficient government initiative set a target for Scottish Water to deliver £100.5 million of efficiency savings for 2007-08. The Scottish Government recently published its efficiency outturn report, which stated that it had not been possible to certify that Scottish Water achieved those savings and that it would be for the Water Industry Commission to confirm the level of efficiency savings that were expected. Do you expect Scottish Water to deliver £100.5 million of efficiency savings? If not, why not? If you expect it to deliver that level of savings, could it have done more?

**Sir Ian Byatt:** That depends on where one starts from. I am afraid that I am not briefed to answer the precise question that you asked, but I can tell you that I believe that Scottish Water has improved efficiency by more than nearly all the other parts of the Scottish public sector, so it has done extremely well. When the regulatory period 2006 to 2010 is finished, we will report on what Scottish Water has achieved during that period. However, compared with the situation that it faced earlier in the century, Scottish Water has done a great deal on efficiency. Operating costs have fallen by 40 per cent. On average, customers now pay £90 less than they would have done if there had not been that achievement in efficiency. There is no doubt that Scottish Water has improved its efficiency considerably. Exactly how the company has performed against that particular assessment over the period will be considered in our

arrangements for the proper monitoring of the whole regulatory period.

**Des McNulty:** In January, Alan Sutherland said:

"There is substantial scope and a great need for improvement on discharges from sewage treatment works to our environment."—[*Official Report*, 29 January 2008; c 405-6.]

Has that improved?

**Sir Ian Byatt:** Since January? We do not do things on an annual basis, so I am not sure that we will have figures on that. Craig MacKenzie might be able to say more.

**Craig MacKenzie (Water Industry Commission for Scotland):** As the committee will be aware, within the past couple of weeks we have published our assessment of Scottish Water's customer services. Sewage treatment works compliance remains an issue on which Scottish Water performs less well than the companies in England and Wales.

**Des McNulty:** We have a particular issue with some of the treatment works that were built early on under the private finance initiative. One such treatment works in my constituency—as with another in Mr MacAskill's constituency—produces significant odour problems. The issue seems intractable because Scottish Water has not been able to find a way of dealing with the problem because of contractual issues. Is the commission trying to find a way to resolve that issue?

**Sir Ian Byatt:** There have certainly been problems at Seafield and at Dalmuir in your constituency. The issue is about how Scottish Water ensures that the contractual arrangements work properly. We have been assured that there are plans to improve those works to reduce the amount of odour. The situation is really not acceptable, but it takes time to sort it all out.

**Des McNulty:** The problem is that the issues have existed since 1997. Despite various promises that something will happen, no proper engineering solution seems to have been provided. Is there a mechanism whereby we can raise the issue with the commission or with Scottish Water to find a way to cut through the problem?

**Sir Ian Byatt:** We have to leave the management of Scottish Water to Scottish Water. It would be wrong for the regulator to try to get into the details of management, for which we are not equipped. I assure you that no one has approached us about any financing issues. If there were financing issues, they should come to us to discuss them.

**Des McNulty:** Scottish Water admits to a "rising emissions trend" in its annual report—

**The Convener:** Sorry, I have had a request for a supplementary question on the issue of sewerage before we move on to the next question.

**Alasdair Allan:** A specific concern in the crofting counties is the need to ensure that houses are built in an environmentally sustainable way, which generally means building them on common grazing rather than on crofting land or on inby crofting land. Does the current regulatory set-up recognise the need for Scottish Water to provide sewerage and water to places that the community considers are environmentally and socially sustainable for housing rather than just to those places that would be quickest, easiest and cheapest to supply?

15:30

**Sir Ian Byatt:** Our first task was to ensure that sufficient money was available to allow houses, factories and other commercial premises to be properly connected to Scottish Water's strategic resources. We are satisfied that there is enough money for that. The complaints that we received about development seem to have died away, although I am not saying that everything is perfect everywhere.

A particular issue may arise in places where local costs will be different. The issue is largely whether developers are prepared to deal with their part of the infrastructure; I do not think that there is any question that Scottish Water has sufficient money to deal with the strategic aspects.

If difficulties have arisen in members' constituencies, I would be delighted to hear about them. As you will understand, we cannot deal with individual cases; however, if responsible bodies tell us about different cases, a generic issue may arise that we will have to deal with. I am always ready to visit different parts of Scotland. Indeed, I had an interesting discussion with Mr Allan in the Western Isles earlier this year.

**Alasdair Allan:** Indeed.

**Sir Ian Byatt:** We like to hear about specific issues so that we can decide whether there is a generic answer.

That answer may have been only half satisfactory, but it is the only one that I can give you.

**Alasdair Allan:** I do not want to stray into specific examples, but the chief reason that people give for building on croft land in a way that might not be considered environmentally or socially sustainable—in other words, for building on land that should be used for crofting—is that it is prohibitively expensive to bring in water and sewerage facilities to areas that would be considered environmentally and socially

sustainable. We can perhaps pursue that at another stage.

**Sir Ian Byatt:** There is an argument about multiple objectives. Sometimes it will be desirable to invest in particular places, and that can happen in derelict urban areas as well as in rural areas. We want to ensure that Scottish Water plays its part, but that will not mean that it picks up bills that others might pick up. I do not think that Scottish Water's customers would thank us if it did.

**Des McNulty:** I understand that Scottish Water is Scotland's biggest consumer of electricity. Changing technology in the water and sewerage industry means that emissions are an increasingly important issue. What can Scottish Water do to reduce its emissions and its consumption of energy?

**Sir Ian Byatt:** To reduce its energy consumption it can start by reducing leakage. After that, I am sure that there is scope for many other ways of improving energy efficiency. I was working in the United Kingdom Treasury back in the 1970s when oil prices went up, and it is amazing how much more efficient our fuel use is now. I am sure that there is still further to go. We will encourage Scottish Water to implement efficiencies that are cost effective.

There will soon be a climate change act in Scotland. It will be for the Scottish Government to decide how it will achieve the progress that Parliament will vote for. The targets will take us up to the middle of the century, and there will be a path towards them. Such considerations will enter into ministers' thinking in the directions that they give to Scottish Water, and it will be Scotland's job to finance those directions.

**Des McNulty:** What scale of reductions might be feasible—bearing in mind industry standards and improvements in the use of technology? It is one thing for us to think about what is desirable, but it is an entirely different thing for us to make realistic assessments—based on information from you—on what Scottish Water can achieve.

**Sir Ian Byatt:** The first thing that you should do is go to Scottish Water. Then we would check whether its answers made good sense.

You might like to raise this issue with Scottish Water when its representatives come to the committee. We would be very ready to do an audit on that—but you must remember that we are not operational engineers but regulators.

**Colin McLaren:** I acknowledge Mr McNulty's point. Today's water treatment processes are power intensive. To that end, we have sponsored a PhD student at the University of Edinburgh to research renewables-powered water treatment, particularly for the north-west of Scotland, where

there are many small water treatment works that might benefit from such technology. We do not have an answer yet, but we are certainly considering the matter.

**Alison McInnes:** The drinking water quality regulator's 2007 report states that there were 64 water quality event notifications that were classified as serious incidents. Do you have any views on the number of such incidents relative to the scale of Scottish Water's operations? How does it compare with previous years?

**Colin McLaren:** The number is similar to previous years. A large number of events is reported to us because any kind of technical failure is reported to us as an event. My staff make a judgment as to how serious an event is. If it is considered serious, it will be classified as an incident, which requires further investigation and a detailed report. Any disinfection failure, or any time that a boil water notice is issued, is considered serious enough to warrant classification as an incident.

I do not put pressure on Scottish Water to reduce the figure of such incidents and events too much. It is not taking any measure to reduce the number, although I would like it to go down. I am more concerned that we find out about them and learn from them to prevent similar events and incidents from happening in future.

**Alison McInnes:** How have you found Scottish Water's performance in the event of a water quality incident?

**Colin McLaren:** Scottish Water is very good at responding when an incident occurs and fixing the problem after it has happened but it needs to learn how to prevent incidents from happening in the first place. It could make more use of its information and historical results to find out where things might be going wrong and prevent incidents.

**Alison McInnes:** You said a moment ago, in response to my first question, that you were not particularly interested in reducing the number of events. Would targets not help to focus Scottish Water's mind on that matter?

**Colin McLaren:** I think that targets might result in a tendency to drive the reporting underground. I am happy that incidents are being reported to me; if there were targets, incidents would stop being reported to me.

**Alison McInnes:** Another notable feature of your 2007 report was the number of incidents involving cryptosporidium. Were they preventable?

**Colin McLaren:** They were largely due to the weather conditions. There were small supplies, and the changes in the weather in July and August caused the problems. Such incidents are

preventable if the appropriate treatment is in place, but that is expensive. At the moment, we have a robust monitoring regime, which enables us to know whether there is a cryptosporidium problem and instruct the local population to boil its water.

Investment in treatment is planned, but it cannot all be delivered within one investment period. It is continuing work.

**Alison McInnes:** You said in your report that the incidents were due to insufficiently robust treatment processes. What action is Scottish Water taking to increase the robustness of treatment processes?

**Colin McLaren:** It is reviewing the treatment processes not only at the works that were featured in my 2007 report but across a range of its works and putting in new ones where appropriate.

**Rob Gibson:** I will ask about the guaranteed standards scheme and minimum service standards. Gary Womersley from Waterwatch Scotland said that GSS payments were available for issues that were no longer a problem and that he

“would rather have GSS payments realigned to new areas of concern for customers.”—[*Official Report, Transport, Infrastructure and Climate Change Committee*, 7 October 2008; c 862.]

What is your view of GSS and MSS? What alternative approaches might be better?

**Sir Ian Byatt:** The guaranteed standards scheme is the rough-and-ready compensation for when things go badly wrong, such as people not turning up for an appointment. That is an essential first step. It might well be that payments should be extended to other areas. I would very much like to hear from Waterwatch to which areas it wants payments to be extended.

Of course, we must supplement the GSS with the overall performance assessment, which is what I was talking about in the context of levels of service. We will need to think about where we go next on levels of service. There is a route that we must take and the big test is whether we are going fast enough down that route. We should start with the simple things and then get on with the more complex things.

Quality of service is an important issue for customers. It is all very well for the telephone to be answered within X seconds, but if a customer then gets a long recorded message that tells them that their call is important, they do not feel that they are doing well—

**The Convener:** We have all been there.

**Sir Ian Byatt:** I very much encourage Waterwatch to consider the quality of the answers

that people get. When I was at Ofwat—the Water Services Regulation Authority in England and Wales—I encouraged the customer service committees to undertake special audits, whereby a panel would look at a sample of cases and consider whether they had been handled sensibly. We work by numbers, which is a problem, because numbers do not tell the full story. We need a battery of the numbers and the quality, and we need to keep pushing forward all the time, because customers, who are the important people, have often been neglected.

**Rob Gibson:** I suppose that numbers can at least tell you how long the recorded message is.

**Sir Ian Byatt:** Indeed.

**Rob Gibson:** Could you contemplate moving from GSS to MSS? It is a minimum standards issue.

**Sir Ian Byatt:** I am sorry; you must remind me what MSS stands for.

**Rob Gibson:** I am talking about minimum service standards, which would encapsulate some of what you were saying.

**Sir Ian Byatt:** I am slightly ambivalent about minimum standards. I want standards to improve, and constant pressure must be applied to ensure that that happens, but I like to think much more in terms of aspirations to raise the average. If we concentrate on minimum standards, there is a danger that everyone will feel happy at a level that is just above the minimum. However, it is a question of style. There might be minimum standards in the package.

**Rob Gibson:** Does Colin McLaren want to comment on that?

**Colin McLaren:** We have done audits of customer contacts and the quality of responses. However, we considered whether Scottish Water had given appropriate advice; we did not consider how quick responses were. We looked at the quality angle.

**Rob Gibson:** The Flood Risk Management (Scotland) Bill has been introduced and will address external sewerage flooding. Waterwatch Scotland put that at the top of its list of issues that are “bubbling under the surface”, as it put it in evidence to the committee in October. The bill will designate Scottish Water as a “responsible authority” and impose on it a duty to exercise flood risk management functions. How can Scottish Water take on that duty in the current programme?

**Sir Ian Byatt:** If the Scottish Government, which must be the prime mover in this context, decided that the obligations on Scottish Water should be changed within a price period, we would have to be told and we would consider the costs of doing

that. The costs of dealing with external sewerage flooding might be considerable in certain cases, but that is not the point; the point is that the first move should be with the Scottish Government. Of course, the Government might want to consult Scottish Water and the Water Industry Commission for Scotland on the costs of imposing such an obligation.

Once the obligation is imposed, we have an arrangement, which we call interim determinations—as opposed to the four-year determinations—that we could use to change the prices, provided that there was a very strong case for spending that much money. Our task would be to look at the amount of money with a very beady eye, but not to look at the obligations, which would be for the Government to look at with a beady eye.

15:45

**Rob Gibson:** You mentioned prices. I presume that borrowing requirements are part of the opportunity. If the current investment programme could not cope, with an interim determination decided before the end of the four-year period, it might well be possible to borrow to try to tackle some of the sewerage issues.

**Sir Ian Byatt:** That takes us back to Government expenditure. At the moment, the borrowing for Scottish Water comes from the Scottish Government, but the Scottish Government is thinking about other arrangements, such as the Scottish Futures Trust, which might change things.

**Rob Gibson:** Indeed. I suspect that we will deal with that on another day.

Do you anticipate that the Flood Risk Management (Scotland) Bill will have any other implications for Scottish Water?

**Sir Ian Byatt:** I do not anticipate any other implications, simply because we would normally expect the initiative to come from Scottish ministers. After all, they have seen the bill go through Parliament and it is for them to start the process. I am happy to think about all these things, but we have an awful lot on our plate at the moment.

**Cathy Peattie:** I would like to ask some questions about the overall performance assessment. The OPA in Scotland differs from that in England and Wales. What measures were left out of the Scottish OPA that are used in England and Wales and why were they left out? Which ones will be included in future?

**Sir Ian Byatt:** I shall have to ask Craig MacKenzie to help me with that question. Certain measures of serious pollution incidents are handled differently in England and Wales and in

Scotland. I guess that there will always be something that arises out of the geography. I come up from Birmingham regularly on the train and I see that the geography of northern England is not altogether different from the geography of southern Scotland. There is a good deal of similarity, so one should not emphasise the differences too much.

**Craig MacKenzie:** You asked what measures were missing. When we brought in the overall performance assessment in the most recent strategic review, we had information on 11 of the 15 areas used by Ofwat. Of the four areas that were missing, three relate to pollution incidents—there is a measure of serious and less serious incidents on the waste water side and a measure of serious incidents on the water side. There is another measure called assessed customer service—this goes back to what Sir Ian Byatt was saying earlier—which is a more qualitative assessment that is carried out by Waterwatch. We are aiming to have all those measures in place for a full comparison at the time of our next strategic review in June next year.

**Cathy Peattie:** That leads me on to my next question, which is about quality. Waterwatch Scotland criticised the OPA scoring system because it was entirely about quantity and customers are concerned about quality. What plans are there for Scottish Water to be subject to qualitative assessment rather than quantitative assessment of the OPA?

**Sir Ian Byatt:** The qualitative assessment may well go beyond the OPA. I believe that it should do so. Both quantitative and qualitative assessments should be made. Under the present institutional arrangements, it is convenient for us to do the quantitative assessments, because we are to a considerable extent a numbers organisation, and for Waterwatch to do the qualitative assessments. We should be talking to each other about how the package works. I accept entirely that the quantitative assessments are only part of the story.

**Cathy Peattie:** Can you give any indication whether Waterwatch's qualitative assessments will be implemented?

**Sir Ian Byatt:** I am afraid that I am not completely au fait with exactly what Waterwatch intends. It wants to do those qualitative assessments. I ask Craig MacKenzie whether it has told us exactly what it wants to do.

**Craig MacKenzie:** It is our aim that the qualitative assessment part of the OPA will be in place for our next review, which will be available in draft form in June next year.

**Cathy Peattie:** Is the OPA target essential, desirable or aspirational? As Scottish Water is

very close to reaching the target for 2009-10, is the target too soft?

**Sir Ian Byatt:** That is an interesting question. Scottish Water has done jolly well to get there and many people did not expect it to do that. The best thing is to say, "Well done," but, when we set the next targets, to say that it seems to us that Scottish Water can do as well as the companies in England and Wales. We will think about the appropriate targets. It is important that people have incentives to do well. If they have done well against a target, they should be congratulated and, sometimes, financially rewarded. That means that we can ask those people to go even further—that is the whole process of reward and aspiration. Of course, there must be a bit of punishment for people who fail to meet their leakage targets.

**Cathy Peattie:** I do not know about the punishment, but let us see about increasing the targets.

**Sir Ian Byatt:** Regulators must always remember that they deal with human beings, that those human beings respond differentially to sticks and carrots and that we need a mixture of both. Even regulators need to be assessed properly.

**Cathy Peattie:** We could be here all afternoon speaking about sticks and carrots. Perhaps we will do that another day.

**Alex Johnstone:** We were told in January that three companies were ready to enter the retail market for non-household customers. We have now had a good six months since the market was opened up. How many entities now operate in the market for retail competition in the water industry and how are the new entrants doing?

**Sir Ian Byatt:** The new entrants that are currently operating are Satec, which is a specialist company that often deals with measuring equipment, and Osprey Water Services, which is part of the Anglian Water group. Both of those companies have customers. The incumbent was Scottish Water Business Stream, which is Scottish Water's former retail arm, but it is now being run very differently and with a different style. We also have Ondo Industrial Solutions, which is part of the French company Suez Environnement. Ondo has a licence but, so far, it is not fully into the market, although we expect it to be in the market. We had a little hitch with a company called Aquavita, which came into the market and then collapsed. However, we are glad to say that that was managed without any customers suffering.

There is now the beginning of competition—we might say the more, the merrier—and we have specialists and the big players. We have also changed the incentives for Business Stream. For example, Tesco decided to stay with Business Stream because it got a better deal, although I do

not know exactly what that deal is, as it is between Tesco and Business Stream.

**Alex Johnstone:** You have touched on Scottish Water Business Stream, but I ask specifically how it is performing in the new market.

**Sir Ian Byatt:** It is performing with great energy. It is interesting to see the transformation, the different culture and the way in which Business Stream is offering people better deals. It says that 30 per cent of its customers are now on a better deal, so that is pretty well 30 per cent of all the customers in Scotland. There is no doubt that the incumbent has woken up quite a lot as a result of the new companies coming in. What one might have predicted has been happening.

**Alex Johnstone:** The objective was to create a real market in the non-household sector. Has a real market been created, and how is it functioning?

**Sir Ian Byatt:** There is a real market in the sense that anybody can change to another supplier and there are other suppliers to change to. The real market is also being created in the sense that a central market agency has been created to carry out all the switching of suppliers for customers in the same way as Elexon has done in the energy market. All the arrangements exist, as do those to allow people to self-supply.

What we are waiting for is the enterprise of Scottish business and the Scottish public service to see whether they can improve the situation. For example, I notice that the national health service in Scotland has a large number of water connections—why does it not go for one bill? If it goes for one bill, it will also get a supplier who can advise it on how to make better use of its water. One aspect of a competitive market that I like is that, instead of having a supplier who wants to sell water, we have a retailer who wants to sell water services, which might include being economical with water. There is a green tinge to the agenda.

The process is going reasonably well. It is early days, as the market has been open only since the beginning of April.

**Alex Johnstone:** In January, Alan Sutherland told us that he was

"quietly confident that some of the larger companies from England will make service options available to Scotland ... in the next six months to a year".—[*Official Report, Transport, Infrastructure and Climate Change Committee*, 29 January 2008; c 391.]

Has that happened, or is it likely to happen?

**Sir Ian Byatt:** Osprey, which is owned by Anglian Water, has come into the market, but other big companies in England and Wales have not. Competition in England and Wales is currently being examined, and I suspect that they are



wondering how Professor Cave's review will come out and how Ofwat and the Government will respond. Those companies are probably looking at their own situation, but I am delighted that Anglian Water has decided to get ahead of the game.

**Alex Johnstone:** Is that the only reason why only one English company has made a move?

**Sir Ian Byatt:** I do not know. It is one plausible reason, but it is not something that we have researched.

**Alasdair Allan:** You mentioned some of the benefits that have accrued as a result of the market. Have any unforeseen problems emerged in the setting up or running of the market?

**Sir Ian Byatt:** I suppose that the collapse of Aquavita was an unforeseen problem. We did not expect a company to come in with enthusiasm and then be taken over before withdrawing from the market. It was not ideal, but the big point is that the market recovered perfectly happily. Everybody was transferred to other suppliers, and no customers lost out. That showed that people can come into and exit the market, which is what you would expect in any competitive market. Groups such as Tesco come into the newspaper-selling business, as do corner shops, and sometimes they go out. The big test is whether customers are losing. In the case of water, customers did not lose.

**Alasdair Allan:** Mention of the collapse of Aquavita will send terror into the hearts of all MSPs who represent distilling constituencies.

**Sir Ian Byatt:** Quite.

**The Convener:** I am tempted to comment on the likelihood of Tesco, as opposed to the small shop, going out of the newspaper market, but there we go.

**Des McNulty:** The commission's investment report for 2007-08 stated:

"Although ... Scottish Water increased the value of the programme that had reached the construction stage, relatively little had been delivered to the project completion stage and even less had been signed off by the quality regulators as fit for purpose."

There may be a phasing issue, but what do you think are the reasons for that failure?

16:00

**Sir Ian Byatt:** You might be overstating the matter as you put it. It is true that the money is being spent and that the number of projects passing the sign-off stage is not as big as we would like it to be. Nevertheless, I must stress the importance of sign-off and the fact that these things have to be signed off by my colleague Colin McLaren and by the Scottish Environment

Protection Agency. We see it as a piece of joint regulation to help the environment as well as customers.

Why is this happening? It is a very big programme. If you read our investment report, you will see that Scottish Water's 2006 to 2010 programme is the biggest per property in the United Kingdom. It is bigger than that of South West Water, which also has a very big programme that is difficult to manage. We think that the programme that is being attempted is probably on the big side in terms of what can be delivered by an efficient management and the construction industry in Scotland. We have done some work to find out what would be an efficient-sized programme, and we believe that it would probably be of the order of £450 million to £500 million, rather than the £600 million that is being achieved at the moment.

It is always a good idea to do all that we can and to strive and press, but it may be that we have tried to push too far on this one. A little bit of a retreat, in order to do better and be more efficient, may be the right way forward. That is how we will approach the capital programme for the 2010 to 2014 regulatory period.

**Des McNulty:** One of the issues that arose in 2006, when we moved from quality and standards II to quality and standards III, was the hiatus because of the pressures around closing down one programme and getting the projects in place for the new programme. There was a significant blip in the investment pattern at that time, despite the fact that the problem was flagged up to the Government well in advance—it did not seem to be something that could be organised out. There is a fear that the same thing might happen in 2010. What can be done to ensure continuity of investment, from the point of view of both the customer and the construction industry?

You made the point that this is a substantial component of the construction industry's activity in Scotland. I would have thought that, given the credit crunch and global financial uncertainty, it is important that we minimise any unnecessary administrative slow-down in taking the projects forward.

**Sir Ian Byatt:** Certainly, now is not the right time to cut investment. I am not convinced that the slow start to the current programme was necessary. There is still an overhang from the Q and S II programme. What should be done to ensure smooth movement? Essential planning should take place, which need not cost money. That is probably what my colleagues will be saying to Scottish Water right now or shortly. I will certainly tell them to talk in those terms when I see them later this evening.

**Des McNulty:** Does the Scottish Government have a role in that? It has to establish the parameters within which the next Q and S round will be taken forward—both the price mechanism and its contribution to deciding the investment parameters.

**Sir Ian Byatt:** The Scottish Government will issue—as soon as possible, I hope—its directions for Q and S for the next period. We need those soon, as they will be helpful. There are also interesting issues in different parts of Scotland. For example, in Glasgow, a whole set of investments is due relating to the Commonwealth games, including the M74 completion project and a velodrome that is being built. We have been talking to Glasgow City Council, and I go to see its chief executive from time to time. We have set up a planning team, because we want to ensure not only that there is sufficient investment but that the investment does not start to crowd itself out on the ground.

The same occurs in other parts of Scotland, too. For example, in Inverness, at the A69—I might have got the number wrong, in which case forgive me—

**Rob Gibson:** It is the A96.

**Sir Ian Byatt:** That is correct—it is the road that leads east out of Inverness. Some concerted planning needs to take place there, involving Scottish Water as well as other bodies. Those things are important, as is ensuring that the total levels stay up. We always consider what is delivered, rather than just the money that is being spent.

**Charlie Gordon (Glasgow Cathcart) (Lab):** Is there an inconsistency between your desire for an acceleration in the pace of Scottish Water's investment programme and your analysis that managing such a large programme has efficiency issues, which might affect other projects such as schools, roads and hospitals, and the construction industry generally? What can be done to resolve that apparent tension?

**Sir Ian Byatt:** The tension occurs because, in the present regulatory period, we have a big, highly ambitious programme, which we have been pushing Scottish Water to achieve. Our disappointment is that more projects have not been signed off by now—although quite a lot have been, and we should not exaggerate the issue. That is the problem for this regulatory period.

For 2010 to 2014, it will be a matter of learning and moving on to a capital programme that will probably be somewhat smaller but which we know can be delivered.

**Charlie Gordon:** Is the lumpiness of Scottish Water's programme—as I would term it—in the

period that we are in now, rather than in the next four-year period?

**Sir Ian Byatt:** We are trying to do a huge amount at the moment. Therefore, it is a lumpy programme. Generally speaking, although there will be a number of quite big projects, including in Glasgow, many of the projects are quite small, and they are spread around the country.

**The Convener:** If delays in the investment programme lead to increased costs for Scottish Water, how will those costs be met?

**Sir Ian Byatt:** By the Scottish Government. Customers do not pay twice.

**The Convener:** Okay. That is nice and clear—that is the kind of answer that we like.

**Sir Ian Byatt:** Keep your eye on that one.

**The Convener:** It is rare that cabinet secretaries give such clear answers, it has to be said.

Do our witnesses wish to raise any issues that Scottish Water and the water industry might be required to address in the near future, besides those that have already come up in the meeting?

**Craig MacKenzie:** I have nothing to add.

**Sir Ian Byatt:** You have given us a very satisfactory set of questions, and we hope that we have given you satisfactory answers.

**The Convener:** That sounds like a “Yes Minister” response.

**Colin McLaren:** I have nothing further to add, thank you.

**The Convener:** There are no final questions from members. I thank all our witnesses for the time that they have taken to answer our questions.

I am aware that, under item 1, I should have made it clear that the committee was being asked to take in private not just item 4 today but also consideration of our draft report on the budget at future meetings. Can I check that we are agreed on both counts?

**Members indicated agreement.**

16:09

*Meeting continued in private until 16:50.*

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

No proofs of the *Official Report* can be supplied. Members who want to suggest corrections for the archive edition should mark them clearly in the daily edition, and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP. Suggested corrections in any other form cannot be accepted.

The deadline for corrections to this edition is:

**Wednesday 12 November 2008**

#### PRICES AND SUBSCRIPTION RATES

##### OFFICIAL REPORT daily editions

*Single copies: £5.00*

*Meetings of the Parliament annual subscriptions: £350.00*

The archive edition of the *Official Report* of meetings of the Parliament, written answers and public meetings of committees will be published on CD-ROM.

##### WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

*Single copies: £3.75*

*Annual subscriptions: £150.00*

Standing orders will be accepted at Document Supply.

Published in Edinburgh by RR Donnelley and available from:

#### **Blackwell's Bookshop**

**53 South Bridge  
Edinburgh EH1 1YS  
0131 622 8222**

**Blackwell's Bookshops:**  
243-244 High Holborn  
London WC1 7DZ  
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh.

**Blackwell's Scottish Parliament Documentation**  
Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

**Telephone orders and inquiries**  
**0131 622 8283 or**  
**0131 622 8258**

**Fax orders**  
**0131 557 8149**

**E-mail orders**  
**business.edinburgh@blackwell.co.uk**

**Subscriptions & Standing Orders**  
**business.edinburgh@blackwell.co.uk**

#### **Scottish Parliament**

**RNID Typetalk calls welcome on**  
**18001 0131 348 5000**  
**Textphone 0845 270 0152**

sp.info@scottish.parliament.uk

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.uk

**Accredited Agents**  
(see Yellow Pages)

and through good booksellers