

MEETING OF THE PARLIAMENT

Wednesday 24 September 2008

Session 3

£5.00

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Scottish Parliament

Wednesday 24 September 2008

[THE PRESIDING OFFICER *opened the meeting at 14:30*]

Time for Reflection

The Presiding Officer (Alex Fergusson): Good afternoon. As always on a Wednesday, the first item of business is time for reflection. Our time for reflection leader is Father John Bolland from the religious education department of the University of Glasgow.

Father John Bolland (University of Glasgow): I thank the Presiding Officer for his invitation to lead this time for reflection. I am especially grateful, given that this is my second bite at the cherry, as they say.

I first came to the Parliament in September 2004, when the chamber had been in use for only a week. I recall the palpable sense of excitement at the newness of things—at the way a chair felt or a door worked. There was also a whiff of novelty in my own life: that very week, I had opened a new chapter as a teacher at the University of Glasgow. I hope that you will indulge me if I find the timing of this invitation providential. Here we are, four years down the road, with four years long having been considered as a key measurement of time. From the ancient Greeks with their Olympiads to the political life spans of the United States and Scottish Executives, four years has long been considered a good time for reflection.

Let us cast our minds back to September 2004 and to where we have been since then. Just as this building has been run in, so have you and I—indeed, so have we all. There are, of course, ways in which running in can involve a degree of running down. Like the chamber, bits of our public and private lives may have become slightly unstuck. Also, some things may not have worked out quite as we hoped they would, but such, as they say, is life. However, as each of us examines our conscience, can we call on a standard by which to measure our progress, or lack of it? Despite the different social, political and religious complexions of Scotland in 2008, is there common ground on which we can all meet? I think the answer is yes.

In the last pages of the Christian Scripture, in the book of Revelation, Christ himself addresses a sort of time for reflection. In the first place, he speaks to those in the church at Ephesus and praises their courage and perception—so far, so good. However, he adds a word of reproof, saying:

“I have this complaint to make: you have less love now than you used to.”

There is the rub. Whether we are talking about the history of our nation or telling personal stories, there is no more essential measure of our progress, or lack of it, than to ask, “Am I more loving?” or, “Is Scotland more suffused with real and responsible charity?” If we can honestly answer those questions with a tentative yes, we can be sure that we are moving in the right direction. If I am ever given another invitation—unlikely though that is—to address the chamber, I look forward to tracing the onward and upward trajectory of Scotland’s love for all its people and, indeed, our love for one another.

Business Motion

14:34

The Presiding Officer (Alex Fergusson): The next item of business is consideration of business motion S3M-2584, in the name of Bruce Crawford, on behalf of the Parliamentary Bureau, setting out a revised programme for today's business.

Motion moved,

That the Parliament agrees the following revision to the programme of business for Wednesday 24 September 2008—

after

2.30 pm

Time for Reflection

followed by

Parliamentary Bureau Motions

delete

followed by

Scottish Government Debate:
Scudamore Report into Foot
and Mouth

and insert

followed by

First Minister's Statement: The
Implications for Scotland of the
Lloyds TSB Takeover of
HBOS

followed by

Scottish Government Debate:
The Implications for Scotland
of the Lloyds TSB Takeover of
HBOS.—[*Bruce Crawford.*]

Motion agreed to.

HBOS

The Presiding Officer (Alex Fergusson): The next item of business is a statement by the First Minister on the implications for Scotland of the Lloyds TSB takeover of HBOS. The First Minister will take questions at the end of his statement, therefore I ask that there be no interventions or interruptions.

14:35

The First Minister (Alex Salmond): Last week, the Parliament united in support of the staff who may be affected by the takeover of HBOS by Lloyds TSB and in its intention to secure the best possible outcome from these events for Scotland. Party leaders across the chamber, with one voice, spoke out against the damaging and destructive practices in the financial markets that laid HBOS low. These circumstances demand that the Parliament responds effectively to support Scottish jobs, the wider economy and society at large.

Later this afternoon, there will be a full debate in the chamber, which I welcome, so I will restrict my statement to the essential elements. These are, first, the current position of the proposed merger of HBOS and Lloyds TSB; secondly, the Scottish Government's objectives and what we have already done to secure them, with the full and welcome support of the Parliament and the wider Scottish community; and thirdly, the next steps that the Government is taking to promote Scotland's interests.

The Bank of Scotland is Scotland's oldest banking institution and one of its strongest and most successful. It was founded in 1695 by an act of the old Scots Parliament. Today, through HBOS, it is a large, innovative, successful and profitable bank. One week ago, the Financial Services Authority assured the markets:

"We are satisfied that HBOS is a well-capitalised bank that continues to fund its business in a satisfactory way."

Two hours after that categorical assurance was given, Lloyds TSB and HBOS announced that they were in merger talks.

I believe that there were no substantive negotiations between HBOS and Lloyds until last week. That means—importantly for us—that the companies are more or less starting from a blank sheet of paper. It also means that there is much to play for in the future organisation of a merged company.

Both Lloyds TSB and HBOS are excellent institutions. They have brands that are household names, and they have strong individual businesses. HBOS is a lynchpin of the Scottish economy. It has more than 300 retail branches

across the country, and it is one of Scotland's major commercial lenders, lending to small firms and to the very largest in the land. The group headquarters of the bank is based in Edinburgh, as are many of its wider group operations, particularly on the corporate and investment side. A variety of banking functions employ substantial numbers across Scotland: altogether, HBOS directly employs 17,000 staff in Scotland. Lloyds TSB employs more than 7,000 staff in Scotland and has a Scottish network of 185 branches.

The Lloyds TSB and HBOS businesses undoubtedly overlap, and the acquisition document makes clear the expectation of substantial scope for what are described as "cost synergies". Therefore, it is not surprising that the proposed merger has caused considerable concern for staff at both companies. I know that both management teams are well aware of those concerns. They have made clear their intention to move quickly on the details of the merger and, as soon as possible, to provide information to their staff. Indeed, I understand that meetings have taken place today with the trade unions. I know that all members will welcome that and encourage management to respond promptly and sensitively to the interests of staff.

We should not forget that, particularly because of how they came into being, both organisations have literally millions of small shareholders. In the case of HBOS, there are 157,000 shareholders in Scotland alone, many of whom will feel bruised by recent events.

The Government responded immediately to address the current situation. We are in close contact with the senior management of Lloyds TSB. I have had cordial and constructive discussions with Sir Victor Blank, Eric Daniels and Archie Kane from Lloyds TSB, as well as with Andy Hornby and a number of other executives from HBOS. I have also spoken to a wide range of interests, including the trade unions Unite and Accord. Moreover, we have sought to build a broad and strong consensus on the necessary steps to defend Scotland's economic interests. Our discussions in the Parliament are important to cementing that consensus.

The Government is also working to build an alliance among Scotland's key social partners. On Monday, the Scottish Council for Development and Industry and I jointly hosted a meeting that was attended by around 100 representatives of business, the trade unions, our universities and colleges, and the third sector. I was pleased to be joined at that meeting by the party leaders in Scotland and their spokespeople on business and the economy. I am grateful to Dr Lesley Sawyers of the SCDI for chairing the meeting.

Further to that meeting, the Scottish Trades Union Congress expressly asked me to ensure that the national economic forum debates the matter at its next meeting on 8 October. I am pleased to confirm today that it will do exactly that. Yesterday, I chaired an emergency meeting of the Financial Services Advisory Board to take expert views and agree on how best to defend Scotland's position as a major financial centre.

Those were necessary and constructive discussions. The Government remains committed to dialogue and is grateful to colleagues from other parties for their substantial contribution—indeed, for their suggestion that such meetings should take place. That broad and strong coalition is critical to defending Scotland's vital interests in the days and weeks ahead.

The Government has four clear objectives. First, we seek to protect jobs in Scotland. That means the whole of Scotland—not just the Mound or the capital, but the whole of the country—therefore I welcome the assurance from Lloyds TSB, as set out in its acquisition document, that

"the management focus is to keep jobs in Scotland".

We are in discussions with it and the key trade unions to advance that issue as an absolute priority.

Secondly, the Government is fighting to protect—and, where possible, enhance—the core decision-making functions of the new bank that could be based in Scotland. I welcome the early indication that the new group will retain a Scottish headquarters on the Mound. More widely, we must ensure that the new group's Scottish head office operations are as large and influential as possible. HBOS already has large operations in Scotland that are responsible for core group functions, particularly in corporate and business banking. They are sophisticated and highly successful operations and are an irreplaceable asset to any new banking group, so we will continue to press the case for a strong Scottish influence and brand within the new group. I am pleased to note that Eric Daniels, the chief executive of Lloyds TSB, has described the Bank of Scotland brand as "iconic internationally".

Our third objective is to mitigate and manage any adverse impact on the Scottish economy and wider Scottish society. I spoke earlier about HBOS's central role in financing Scottish business. The bank's commercial operations are hardwired into the Scottish economy and, as became clear to the party leaders and others who attended the summit on Monday, those operations extend throughout the third sector to arts, sporting and cultural organisations and beyond. We will put the case powerfully to the bank's management to maintain that deep and highly productive

relationship with Scotland and we will argue for the greatest continuity possible in its commercial operations.

Moreover, the Government acknowledges the important role that Lloyds TSB and HBOS play in promoting and supporting Scottish society. Lloyds TSB has an admirable and long-standing commitment to corporate social responsibility and provides significant funding to Scotland's third sector; HBOS is a prominent supporter and funder of sports and the arts in Scotland. We will strongly encourage the new group to continue to honour that important contribution to Scottish society and culture.

Our fourth objective is to protect Scotland's leading position in financial services. This country has an international reputation for excellence in financial services, which is founded on world-class skills, a tradition of innovation and expertise, and a highly competitive cost-quality base. Today, the sector generates an estimated 8 per cent of Scottish wealth and 9 per cent of total employment in Scotland. We have recognised strengths across the sector in banking, insurance, asset management and pensions. There is no question but that the developments within HBOS present significant challenges for many aspects of the industry, but the strengths of Scotland's financial sector are deeply rooted, and this Government and this Parliament—all of us—should be firmly behind it.

On a number of occasions, we have encountered perceived threats to financial institutions or sectors of our financial base that have been turned to our advantage by a common and shared belief in our ability and competitiveness. For example, only a few years ago, it was thought that Scotland's life assurance sector was in mortal danger. However, today we see a story of growth and success. Consider the case of Aegon Asset Management, which continues the tradition of Scottish Equitable, or consider Scottish Widows, whose head office operates in Scotland from this city and which has prospered as part of the Lloyds TSB Group. In both cases, the end result was new growth and the retention of key decision-making functions and high-quality jobs in Scotland.

We continue to attract financial services investment in significant quantities from furth of Scotland. Witness the recent decisions of Morgan Stanley, Barclays Wealth, BNP Paribas and HSBC to locate new operations in our country. Those global companies have been attracted to Scotland by the combination of outstanding quality and a strong cost advantage compared with other financial centres. Those decisions show just why Scotland offers a magnificent business location for key decision-making functions.

So we will work tirelessly to maintain Scotland's reputation in financial services by ensuring the best possible deal for Scotland from the proposed merger, by deepening our commitment to attract new business to Scotland and by promoting the excellence of our sector worldwide. Those are the objectives of the Scottish Government in relation to the proposed HBOS merger. I know that the whole chamber will want to remain united in support of what should be joint goals.

Obviously, an enormous amount is at stake. In recent months, I have spoken of Scotland's economic resilience in the face of the gathering global economic slowdown. That economic resilience has been evident from the robust performance of our labour market. The latest data from the International Labour Organization series show that Scotland's unemployment rate is at close to a series low of 4.2 per cent, which is well below the United Kingdom level and one of the lowest in western Europe, and that employment rates remain close to a record high. That Scottish economic resilience also comes through in strong trade figures, in economic growth—which has matched the UK level in the past three reported quarters—and in the £1 billion of new private sector investment in the renewable energy sector that has been made in the past two months alone.

The concern is that that resilience and performance may now be on the line, which only strengthens our resolve to get the best possible result for Scotland. That is why, in the course of my meetings with the key players, I agreed to prepare a full business case for the Lloyds TSB team. That document will present clearly, simply and persuasively the Scottish offer: world-class skills, deep and broad financial expertise, and a substantial quality-to-cost advantage. I will be proud to present that business case directly to the Lloyds TSB-HBOS merger team. We have also offered Lloyds TSB the opportunity—which in principle it has accepted—to speak directly, as the proposals develop, to the key social partners in the Scottish economy through the SCDI and the Financial Services Advisory Board.

I said last week that this Government would strain every sinew to secure a good outcome for jobs and key decision-making functions for Scotland. We are keeping that promise and using every possible opportunity to advance the Scottish interest. We have reached a broad consensus in this chamber on what is right for Scotland, which is reflected, as Monday's meeting showed, throughout Scottish society. That is vital at this moment. Our work now, collectively, is to demonstrate why Scotland should be central to the plans and, indeed, the future success of the proposed new banking group.

The Presiding Officer: As I said earlier, the First Minister will now take questions on issues raised in his statement. We have around 15 minutes for questions of technical clarification, after which we will move on to the full debate.

John Park (Mid Scotland and Fife) (Lab): The First Minister said that the main objective is to protect jobs in Scotland. Has he had any discussions with either Lloyds TSB or HBOS about offshoring Scottish and UK jobs?

The First Minister: The position is that HBOS tends to use domestic sources for many of its back-office operations. Lloyds TSB has, I understand, offshored a number of back-office operations. I suspect that the outcome will depend on the model that is adopted by the new merged organisation.

Clearly, there is concern about the overlap in back-office operations and in the retail branch network in Scotland. It should be said that the evidence from previous mergers in the financial sector is that such matters take a good while—several years—to work their way through the plans, because of the need to synchronise computer and back-office systems. Nonetheless, the concern that people have is entirely legitimate, which makes it all the more important that we fight and work for every job and every decision-making function.

Derek Brownlee (South of Scotland) (Con): I thank the First Minister for advance sight of the statement. On behalf of the Tories, I welcome the four eminently sensible objectives that he set out for the Government.

The First Minister mentioned that he chaired an emergency meeting of the Financial Services Advisory Board yesterday. Can he tell us what conclusions it reached?

The First Minister: One reason for taking up the Scottish Council for Development and Industry's offer of assistance in holding a public meeting—public not in the sense that cameras were present, but in the sense that it was well advertised and well spoken about and everyone could put their point of view—was to show in public the broad front that exists across Scottish society.

Several FiSAB members were anxious that the FiSAB meeting should remain private, not least because Lloyds TSB and HBOS are represented on FiSAB and their position might be compromised by what was said. FiSAB made a number of recommendations that I will accept. One of its recommendations that I can share with members—this is certainly not market sensitive or confidential—emphasised the importance of making a presentation to Lloyds TSB, which was subsequently agreed to, in order to emphasise the

positive case for locating jobs, back-office functions and key decision-making centres in Scotland. A strong recommendation from across the financial sector was that we should use in any presentation the significant evidence of strength and that it should rest on clear examples. Of course, we are greatly assisted by the fact that a key example of that strength is Scottish Widows, whose chief operating officer, Archie Kane, is group executive director of Lloyds TSB. That is a significant advantage in making a clear case for how a key decision-making head-office function can be highly successful in the city of Edinburgh.

Tavish Scott (Shetland) (LD): I thank the First Minister both for the advance copy of his statement and for his invitation to join the SCDI's meeting with the Scottish Government on Monday, along with so many other people who are concerned about the future of financial services in Scotland.

This morning, the chairman of the First Minister's Council of Economic Advisers, Sir George Mathewson, gave warning about the proposed merger. He is concerned that less competition in the banking sector is not good news for Scottish business customers. Does the First Minister support that analysis? What will his presentation to Lloyds TSB say on that point?

The First Minister: Tavish Scott raised the question of competition at Monday's meeting, and obviously it is a concern. The combined group would have more than a 40 per cent share of the Scottish business and retail market. Competition, choice and value for business and customers are significant priorities. Competition rules and regulations have been set aside in the current emergency financial circumstances, but they must be of abiding concern.

Of huge concern to Scottish business is the competitive advantage that we have had over the past few years through having the key decision-making function of the corporate investment division of HBOS in the economy. I gave the chamber some of the recent statistics on the Scottish economy, and they show clear resilience, even in a time of significant pressure and global downturn. The great companies of Scotland, such as Clyde Blowers, Stagecoach and Murray International Metals, are part of the reason for that resilience. At certain stages of their development, the Bank of Scotland or HBOS played a significant role in the funding or financial mechanisms behind those huge companies. Across Scotland, the industrial sector is concerned about retaining the competitive advantage that we have had, and about making sure that speedy decision making and proactive and innovative financing are not lost to the Scottish economy as they have been lost to economies elsewhere.

Roseanna Cunningham (Perth) (SNP): Does the First Minister have any influence on encouraging transparency about local job numbers in respect of both organisations? That information is proving to be somewhat difficult to extract. By jobs, I mean not just high street jobs but back-office jobs.

The First Minister: I do not think that it is commercially sensitive information, so I can provide a fairly detailed breakdown of back-office jobs in various parts of the Scottish economy. If it will assist members, I will be happy to put that information into the Scottish Parliament information centre, so that all members can see it.

Many members will know about the major centres of back-office functions—areas such as Dunfermline and Rosyth, where there are approximately 1,200 HBOS jobs. There are other significant concentrations, of course. In this city alone, HBOS has 17 separate locations.

We can supply a detailed breakdown if that would assist members.

George Foulkes (Lothians) (Lab): Prior to 15 September, did the First Minister at any time publicly call for action to save HBOS or for a clampdown on what he later described as “spivs and speculators”? I cannot find any evidence of such calls. Is it not easy to be wise after the event?

The First Minister: The trumpet sounds a discordant note.

The Presiding Officer: I am not sure how technical that question was, but I will give it to the First Minister.

The First Minister: I can tell the chamber with great authority that when Parliament met last Thursday, it did not seem likely that the UK Government would follow the direct advice that I offered about taking action on naked short selling in the financial sector.

Subsequent to the support that that advice received—and I do not claim that the Parliament or I were responsible—action was taken by the UK Government and in 11 other countries across the world. Perhaps it was an example of the common voice of the chamber having an influence on events. I do not include George Foulkes in my description of the common voice of the chamber.

The Presiding Officer: I said that questions should be of a technical nature only. I do not believe that the last one was.

Sandra White (Glasgow) (SNP): There has been widespread speculation that Gordon Brown knew about the HBOS situation before it became public knowledge—[*Interruption.*] Let me finish, please. There has also been speculation that he

encouraged the merger. Does the First Minister agree that, if that is correct, it was a breach of the financial rules? Will those actions have any effect on the merger?

The Presiding Officer: I am not sure that that is a particularly technical question, either.

The First Minister: I had a discussion with the Prime Minister in the early hours of last Thursday morning, but we did not discuss that aspect. I have no knowledge of that aspect, so I am not in a position to answer Sandra White’s question.

Andy Kerr (East Kilbride) (Lab): My technical question is this: short selling on Fannie Mae and Freddie Mac peaked at 40 per cent, whereas short selling on HBOS reached a high of 10.5 per cent in July 2008. In the 24 hours before the takeover, the short-selling rate on HBOS shares fell from 2.96 per cent to 2.75 per cent, so what led the First Minister to the conclusion that the bank was laid low by short selling by spivs and speculators?

The First Minister: If I had any doubt about the matter, I was made secure by listening to the Prime Minister’s speech yesterday, in which he railed strongly against speculation in the financial sector. As Andy Kerr will now know, the position in June and July was that £1 billion was raked in by naked short selling and by carrying on the stock of HBOS, in particular. That is a great deal of money. I do not object to people making £1 billion, but I do object to them making it out of what was described last Thursday in the chamber as “other people’s misery”, and by destroying various aspects of the economy.

I point Andy Kerr to another strong piece of evidence—the fact that, after action was taken on Thursday night and implemented on Friday, a number of organisations lost significant amounts of money. They could have lost that money only if they had extreme short positions across the financial sector. If that had not been the case, those organisations would not be complaining about the many hundreds of millions of pounds that they have lost.

Jamie Hepburn (Central Scotland) (SNP): As a Fife-trained economist, the First Minister will be aware of the idea of the invisible hand behind the economy, which was promoted by another Fife economist. Does the First Minister agree that it is time for those invisible hands behind the financial sector to be forced out into the open a bit more? Will he spell out how the Scottish Government might press for clearer regulation of the financial sector to that end?

The Presiding Officer: Briefly, please, First Minister.

The First Minister: When we last spoke in the Parliament, action against naked short selling had

been taken by Russia and the United States. It has now been taken by the United Kingdom, Australia, the Netherlands, Taiwan, Italy, Ireland, Germany, Portugal and Switzerland. Among the many aspects of that regulation that I welcome are the instructions to reveal positions daily. That bringing into the light of day what has up until now been a secret activity is a welcome step forward in transparency. It is not the only action that needs to be taken, but the evidence suggests that one would have to be seven kinds of fool not to believe that the previous lack of openness was a major contributory factor to the events of last week.

The Presiding Officer: Tom McCabe will ask the final question. Please be as brief as possible.

Tom McCabe (Hamilton South) (Lab): The First Minister said that he believes there were no substantive negotiations between HBOS and Lloyds before last week. How does he interpret “substantive”? Does he have any view on when negotiations first began?

Secondly, when the First Minister makes the business case to the boards of the two companies—which is a laudable proposal—will he mention to them that, in future, lending people seven times their salary and allowing them to buy parcels of toxic debt is probably not the way to go?

The First Minister: A range of practices across the financial sector may well change as a result of recent events.

In terms of its capital ratios, its profitability and its retail base, HBOS was an extremely strong organisation. It had a dependence on the wholesale markets. Every bank that I know of, with the sole exception of HSBC, has a dependence on wholesale markets.

On the first part of the member’s question, there are two reasons why I believe that no substantive talks took place before last week. First, in anything approaching normal circumstances, the assumption of both organisations would have been that any proposed merger would not advance beyond the competition authorities—there is plenty of evidence for that in previous decisions. Secondly, I am absolutely certain, because of all the contacts and information that I have received, that no clear, detailed decisions have been made on the future bank structure, which suggests that what was agreed last week was the basic outline of the merger proposal, not any of the detail that we would normally expect if such discussions or negotiations had been going on in a substantive way for any length of time.

Mike Rumbles (West Aberdeenshire and Kincardine) (LD): On a point of order, Presiding Officer. I seek guidance on the questions to the First Minister that have just been asked. Several times, you said that questions to the First Minister

should be technical. Surely, if the First Minister makes a political statement to Parliament, as he has done, MSPs should expect to be able to hold him to account by asking him relevant questions. Further, there is no definition of “technical questions” in standing orders. Members need to be able to do their job properly. Will you reflect on the whole process that we have seen today?

The Presiding Officer: Yes, I will. It is a matter for the Presiding Officer’s judgment, but I accept that today’s questions and the manner in which some of them were put call for reflection. I will reflect on that.

HBOS

The Presiding Officer (Alex Fergusson): The next item of business is further debate on the implications for Scotland of the Lloyds TSB takeover of HBOS. We are now extremely tight for time, but I call on Iain Gray to open the debate. Mr Gray, you have nine minutes.

15:07

Iain Gray (East Lothian) (Lab): I am pleased that the Parliamentary Bureau agreed to amend our business to schedule this important debate on a topic that is of concern to people throughout Scotland, from savers to home owners to bank staff. Such is the importance of HBOS to Scotland that few Scots will not be directly affected by the proposed takeover. I suggest that no one will be unaffected by it in some way as a result of the potential impact on the Scottish economy of changes to the bank.

That is why last week Labour suggested a broad meeting of all political parties and representatives of wider Scotland to strengthen our common advocacy for Scottish jobs and Scottish decision making, and to leverage consensus into the most powerful case we can make to Lloyds TSB. That meeting happened on Monday. Using the Scottish Council for Development and Industry to facilitate and host such an event was a good idea, and I was pleased to participate in those discussions.

For one thing, the gathering revealed that HBOS has an even greater reach into Scottish life, commerce and society than I think we in the Parliament had realised. Looking beyond the primary concerns of people with jobs, mortgages, savings or investments with HBOS, takeover of the company will impact on our construction industry, our voluntary sector and our cultural and sports sectors. For example, HBOS holds a significant portfolio—around £4.5 billion—in the housing association sector and on Monday, BAA talked about concerns for air routes that are dependent on the Edinburgh business market, of which HBOS is a big part.

A quarter of a million people enjoyed the Bank of Scotland fireworks concert at the end of the Edinburgh festival, and 140,000 youngsters benefit from the Bank of Scotland's support for grass-roots football, while many of the company's staff engage in a volunteering scheme that benefits many projects throughout Scotland. The Bank of Scotland's contribution to Scotland's history is profound, but the company's contribution to the Scotland of today runs deep and wide. If HBOS is to be taken over by Lloyds TSB, we must—in addition to protecting jobs and sustaining HBOS as a key part of the Scottish economy—

ensure that the communities across Scotland that benefit from such initiatives continue to do so.

Clearly, the issue of protecting jobs in HBOS and Lloyds TSB is paramount—not only in today's debate but in the coming weeks as the situation develops. Obviously, the threat lies at the retail, back-office, and corporate elements of the combined operation, so we must ensure that jobs there are protected as best we can. Customers must be protected too: we must ensure that access to banking services is not threatened but enhanced, and that customers do not suffer from a lack of competition in the retail banking sector.

The interests of customers and staff are connected. Many Scottish businesses, large and small—the First Minister has referred to some of them in recent days—use HBOS corporate banking services. I was pleased to hear Susan Rice, the chief executive of Lloyds TSB Scotland, make the point that those customers will still be there—indeed, they are a big part of the asset that Lloyds TSB seeks—and so the jobs will still be needed. Susan Rice is also a symbol of another source of hope: Lloyds TSB does not just have Scottish roots, it also has a strong Scottish presence, powerful Scottish brands and a Scottish board.

However, it would be naive to imagine that, in such a takeover, there will not be a search for synergies and perceived duplication, which will lead to job losses. In the past, Lloyds TSB as a business has offshored jobs in order to cut costs. Unlike HBOS, it does not have an agreement with trade unions on there being no compulsory redundancies. However, Lloyds TSB has made positive statements in the announcement of the deal, with a focus on retaining jobs in Scotland, a headquarters on the Mound, and continued printing of Scottish banknotes.

In my meeting yesterday morning with Archie Kane—who is the Lloyds TSB Group executive director of insurance and investments, and chief executive of Scottish Widows—I was encouraged by our positive discussions. However, we need positive statements to be turned into guarantees as details of the deal are worked out. A myriad of professional services support the bank, and they are also at risk in the merger. Again, the stakes are high.

However, underpinning all that are the facts that the sector has done well in Scotland for good reason, and that we continue to offer the same attractive opportunities, highly skilled workforce, good connections to further and higher education, good transport links and excellent quality of life. The message that Scotland is open for business and is a good place to do business has to go out loud and clear.

Margo MacDonald (Lothians) (Ind): I agree completely that that message must be sent forth in Scotland, but I wonder how the leader of the Opposition thinks it will play in London, where the corporate functions that are being practised day and daily make up much more of a critical mass.

Iain Gray: In recent years, one of the great strengths of the financial services sector in Scotland is that a critical mass has been built up. The growth of the sector has shown that that is the case. However, Margo MacDonald is quite right to suggest that the great danger—were we to lose some of the functions that may be at risk—is that that critical mass could begin to disappear. That would be very serious, especially for the cities of Edinburgh and Glasgow.

In sending out the message that Scotland is open for business, and in arguing for jobs, I am happy to stand alongside the First Minister. However, when it comes to his analysis of how we got to this point, he really is on his own—in fact, he is out on a limb. Last week, he argued that HBOS's position was due solely to the short selling by "spivs and speculators". He resiles from that position now and talks only of naked short selling. However, that was not his position last week. He was wrong.

I agreed with the First Minister last week that regulation of short selling should be considered. Within hours the Financial Services Authority had, as he has pointed out, suspended the practice in financial institutions. However, I also said that there were clearly problems with HBOS's business model, its exposure to the mortgage market and its reliance on the wholesale money markets. I also said that the global liquidity crisis was a major factor in its weakness. HBOS is a global player in global markets—it has never been just a Scottish institution. Pre-union, 36 of its 172 founding shareholders were based in London. It was its exposure to wholesale money markets that left it vulnerable to the global liquidity crisis. With every day, and from every commentator, it has become clearer that although short selling might have exacerbated the position, there was a problem with the fundamentals of the bank, for which those who run it must take responsibility.

Far from standing idly by and failing to give the institution the backing that it needed, the Prime Minister and the Chancellor of the Exchequer moved decisively to remove competition barriers to the Lloyds TSB deal. The alternative last Wednesday might well have been a run on HBOS and the loss of the whole bank with all the jobs, all the savings and all the mortgages.

The First Minister says that he would have extended a £100 billion credit line, which would have saved HBOS. Leaving aside the question of where he thinks he could have got those funds

from, he misses the point that a credit line was available to HBOS, but it did not access it. I watched the First Minister expound his imaginary scenario on television on Sunday. He was seated by a picturesque stone bridge and a babbling burn. It reminded me of nothing so much as Brigadoon—a strange alternative reality where miracles are possible.

The Deputy Presiding Officer (Alasdair Morgan): The member must wind up.

Iain Gray: We must do everything we can to protect the jobs. Monday's meeting was a good start and yesterday's meetings were encouraging. Scotland expects us to stay on the case and work together for the best outcome that we can achieve.

15:16

Annabel Goldie (West of Scotland) (Con): I declare an interest as a shareholder in the Royal Bank of Scotland and a customer of HBOS.

I welcome the opportunity for Parliament to debate the implications of the proposed takeover of HBOS by Lloyds TSB and I thank the First Minister for facilitating the joint meeting with the Scottish Council for Development and Industry, which was informative and helpful.

The first indication that financial turbulence was hitting the United Kingdom was the crisis that surrounded Northern Rock back in 2007. That company was subsequently nationalised in February 2008. Northern Rock has a small presence in Scotland, so the underlying tremors perhaps seemed slightly remote to us then, but they were felt more directly when, in April 2008, the Royal Bank of Scotland announced that it needed to raise £12 billion from shareholders, which it at least managed to do with only marginal reliance on underwriters.

The tremors became fault lines in May, when HBOS sought to raise £4 billion from its shareholders. The rights issue was largely spurned by the shareholders and massive support was needed from underwriters. At that time, the vulnerability of HBOS became clear. Last week, that vulnerability delivered its own Scottish financial shock wave. HBOS, wounded and bleeding, needed help. The problem delivered to Scotland's doorstep the full impact of market turbulence—an impact that affects thousands of employees, hundreds of thousands of small shareholders, millions of customers, and billions of pounds.

It is essential that the faltering of one Scottish financial institution should not be characterised as a crisis of the whole Scottish financial sector. That sector has a critical mass and a tremendous reputation for skill and acumen that will endure. It

would be unpardonable folly if extravagant rhetoric or unguarded comment were to undermine that reputation. We should all remember that there is a sensitive period ahead for HBOS and Lloyds TSB, pending the takeover's becoming unconditional, because another bid might emerge during that period: it is not a done deal. None of us knows what lies ahead, but I am clear that it is infinitely preferable that the challenge that confronts HBOS be resolved by the banking industry rather than by its being laid at the door of the Treasury and at the feet of the taxpayer.

We are where we are, and our duty now is to look for the opportunities, not just for the employees, small shareholders and HBOS customers but for the broader Scottish economy. The new banking entity will be a huge institution and, at the joint meeting with the Scottish Council for Development and Industry and at the meeting that I had yesterday with Lloyds TSB, I made it clear that I expect its presence to fortify and enhance Scotland's financial sector.

In fairness, I should, like other members, point out that with its existing activity in Scotland Lloyds TSB genuinely understands both the Scottish financial sector and the Scottish economy. It is helpful that Mr Archie Kane, who has been charged with fronting the takeover at the Scottish end, has already played a leading role in the merger between Lloyds and the TSB and in Lloyds's tie-up with Scottish Widows.

What will be singularly important to customers, particularly business customers, is that substantial decision making on financial advice and support continues to come from Scotland. The tendrils of HBOS activity reach into a huge number of areas of Scottish life and the support and advice that it currently extends are vast. Mr Gray has already referred to some of those areas. At the SCDI meeting, Duncan Osler of Macrobanks said that HBOS could be seen as a number of different business units. It is vital that that input is not lost.

HBOS also plays a very important role in Scotland's physical infrastructure, not just as a lender and investor but as a facilitator. Its roles in tourism and in the sphere of corporate social responsibility have also been mentioned. It is essential that the new entity recognises both the social importance and economic significance of that contribution and that it determines to continue it.

Lloyds TSB also has an obligation to assuage the real concern that reduced competition in the banking sector will prejudice the service to business, particularly small businesses. For such businesses, a local branch network is essential, and smaller businesses that want to grow need to have access to affordable capital. I am clear that politicians and this Parliament can make cogent

representations on all these issues to Lloyds TSB, which has indicated its willingness to continue to meet party leaders. That line of communication is very welcome.

I turn to broader issues that are not the responsibility of this Parliament but are relevant to Westminster and the Financial Services Authority. My party thinks it right to suspend competition rules, having regard to the broader public interest, and will support measures to stabilise the banking system. We also welcome any short-term action that will bring stability to the markets. However, it is emerging that the extent of short selling of HBOS shares was greatly exaggerated. We all have to understand that short selling is a symptom, but not the underlying cause, of the problem. The fact is that an economy with excessive property inflation, excessive debt, over-borrowing and a dysfunctional regulatory system has to face corrosive challenges. My party positively supports changes to the capital rules for banks to ensure responsible lending; we would, for example, protect depositors by protecting the first £50,000 of a person's savings. Those broader issues will be dealt with in another place and will certainly be discussed as an election approaches. For the moment, this Parliament can advance many positive arguments to Lloyds TSB in its proposed takeover.

As someone whose party is committed to a strong and confident Scotland within a strong and confident United Kingdom, I am absolutely clear that recent events could have been neither stopped nor meaningfully influenced by an independent Scotland. In an independent Scotland, we would have been pitched like a coracle in the tossing seas of financial tumult. I find comfort in being part of the United Kingdom: it might have the wrong captain on the bridge, but that vessel is nevertheless much better placed to withstand the buffeting of this economic storm.

15:24

Tavish Scott (Shetland) (LD): Today, economic, city and financial grandees are all promoting their interests. Some want a complete rethink of the deal, others feel that the deal is not in shareholders' interests, and some are even coming round to my view that a substantial issue is that there will be less competition on the high street. In that respect, I carefully noted the First Minister's observation that the issue is of abiding concern.

Lloyds TSB's gigantic takeover is of great interest not only in the City of London, the city of Edinburgh and Parliament, but in every village, town and high street in Scotland. This Parliament and our Government need to be seen to be standing up for the individuals and small

businesses that will potentially face loss and threat as a result.

Lloyds TSB's takeover affects armchairs in the board rooms—who decides what, and in which city, does matter. Scotland stands united in wanting to secure all that can be secured on the Mound, around Edinburgh and throughout Scotland, but we must not lose sight of the impacts on the factory floor, at the shop counter and at the farm gate. Every small business will say that one of the top three relationships that it has is with its bank. Therefore, as I explained to Archie Kane yesterday, a real priority of our work must be to protect functions, services and competition on the ground throughout Scotland. It will not be only in Lerwick, where a Bank of Scotland branch is 100yd from a TSB branch, that one bank will go. For reasons of local economic impact, the crisis and the challenge of the future of the Bank of Scotland involve reserved powers and devolved consequences.

People therefore expect the Scottish Parliament and the Westminster Parliament to work together. Today, I have written to the chairman of the Treasury Select Committee, John McFall, and to the convener of the Economy, Energy and Tourism Committee, Iain Smith, to ask them to convene a joint inquiry into the failures that led to the crisis and the impact that it will have on business and the prosperity of companies and individuals throughout Scotland. We must learn why, and we must work on the future.

I cannot agree with Iain Gray that the Prime Minister and the chancellor are without blame, because for 10 years Gordon Brown was warned about City of London loopholes that give every incentive to get-rich-quick schemes. For 10 years, he told us that he had conquered boom and bust and that there was no more bust. For 10 years, he ran an economy that was based on ever-increasing house prices that would never fall, that would feed a credit explosion, that would leave £1 trillion of consumer debts, and in which the only problem was to decide how high the inheritance tax threshold should go to protect the bonanza. The economic music then stopped, and look where we are.

It is important that both Governments have clear objectives and it would be helpful to staff, businesses and account holders if those objectives would coincide. The First Minister was quick to condemn those whom he blamed for the crisis, but according to financial commentators, short sellers appear to be less at fault than the weakness of the HBOS business model.

The First Minister also claimed that as a Prime Minister or President of an independent Scotland, he would have ordered his central bank to lend £100 billion to sort out the problem. Until now—to

answer a different criticism, in fairness—the Scottish National Party has said that it would not have a central bank, let alone that such a bank would be under the personal control of the head of the Government or that it would have £100 billion ready to lend out.

The First Minister (Alex Salmond): Tavish Scott knows what the SNP's policy is. That might have led him to question the report in a particular newspaper. There was clearly a misunderstanding of the reference to the liquidity fund.

On the influence of short sellers, perhaps I was following the advice of Vince Cable, who said:

"It is shocking to see a major British bank brought to its knees by an attack by hedge fund speculators engaged in 'short selling'."

Was I, or was I not, meant to take the advice of that Liberal Democrat spokesman?

Tavish Scott: The First Minister should certainly follow the advice of Vince Cable, and follow much more of it more regularly. He would do very well if he did so. It is important to note that financial commentators—as opposed to me, Vince Cable or anyone else—have made observations on HBOS's business model. The First Minister might want to reflect on that. We are observing what is happening in the current circumstances.

A united and consistent approach that involves everyone in politics and business is not helped by palpable nonsense about central banks and an independent Scotland. We need to keep the banking system moving forward, but I do not agree that we need to keep the lifestyles of every top banker going. They get their great rewards because of the great risks that they tell us about, but they have hit their heads on the risk that has been taken. We need to keep Edinburgh as a financial centre and make best use of the world-class talent, skills and experience that we have here, and we need to retain the grass-roots talent that works with Scottish business in every corner of the country.

Last night, Simon Thompson of the Chartered Institute of Bankers in Scotland said that what had happened

"comes down to poor decisions made in banks".

He put the responsibility on bankers for

"allowing a culture to develop in the banking industry far removed from the high ethical and professional standards required."

Those are not my words; they are his words. Peter Burt was even more succinct on television at the weekend.

People throughout Scotland, and further afield, need to be convinced about our banking and financial industry. The industry, which is of such

significance to Scotland, should not underestimate the jolt that recent days have given to people's confidence—I do not mean people with £1 million share options, but people whose life savings are held on account. The industry has a job to do to convince us that probity, professionalism and the highest standards of analysis and decision making are at the heart of what it does. I have no doubt that the people in the industry will do that, but do it they must.

15:30

Alex Neil (Central Scotland) (SNP): In the past three days, I have talked to several senior bankers in Scotland who, almost to a person, have told me the same thing: that we should not be in the present situation in the first place. I do not want to dwell on this, because we need to look forward rather than backward, but they highlight the fact that, had sufficient liquidity been available at the beginning of last week through the Bank of England's special liquidity scheme—not just to HBOS, but to other banks—we would not be in the position that we are in today.

Gavin Brown (Lothians) (Con): Will the member give way?

Alex Neil: I do not have time, I am afraid.

It was important for the Bank of England to fulfil its full role as a central bank but, with all due respect, it was too slow off the mark. However, we are where we are, so we must look forward and decide how to deal with the situation in which we find ourselves.

I agree with Annabel Goldie that the next two or three months will be absolutely critical for HBOS, because the merger is not yet a fact. That means that HBOS will, at least for the time being, continue to trade as a separate entity, and that its shares will continue to be traded on the stock market as those of a separate entity. It is therefore important that everything possible be done to ensure that nobody, either in Government or in the banking sector, does anything that could in any way further undermine the situation.

The deal on the merger with Lloyds TSB is the only deal on the table, but it is critical that we all back the efforts of the Parliament, the Scottish Government and the First Minister to ensure that Scotland gets the best possible deal if the merger becomes consummated when the shareholders vote in two or three months. Let us be clear that a lot of water has to flow under the bridge before the shareholders get to vote, and that they must approve the merger deal by 75 per cent of them voting for it. It is already clear that, although some institutional investors initially welcomed the proposed merger, they have concerns. Furthermore, the suspension of the competition

rules has to go through the House of Commons, and there is always the possibility of a legal challenge from other sources to the suspension of those rules.

We must ensure that we get the best deal for Scotland if the merger is consummated, but there is a possibility—only an outside one—that someone else will come in with a rival bid for HBOS or with alternative proposals, along the lines of, or as a variation on, those that were outlined this morning by Sir Donald MacKay in an article in *The Scotsman*. When a bid is made by one company, particularly at a low price, it is always possible for another company, spotting what it perceives to be a bargain, to make an alternative offer. That has happened before.

Irrespective of who ends up owning HBOS, there is no doubt that five issues need to be addressed as we move on. There is an issue about the spivs and the speculators. If members do not believe me, I advise them to listen to what Gordon Brown said to the BBC on Sunday when he highlighted the issue of the irresponsible dealing in pension stocks that went on last week and for weeks beforehand.

We have to deal with the failure of regulation, not just of short selling but of, for example, the 10,000 hedge funds operating in the City of London that are barely regulated. The FSA needs to be overhauled and to have its powers enhanced.

The Bank of England failed to act quickly—that, too, needs to be addressed. There is also an issue around funding through wholesale finance at a time when there is a credit crunch and practically no interbank lending. That requires study and resolution for the future. Finally, there is an issue about the merger process and decision making to see whether they can be done much better and more efficiently in the future.

We have to address all those issues, but the overriding concern is not to make petty party points. We must instead ensure that Scotland gets the best deal for our people, pensioners, depositors and shareholders.

15:36

Sarah Boyack (Edinburgh Central) (Lab): I want to focus on three points this afternoon: the importance of HBOS and Lloyds TSB to the wider Scottish economy and, crucially, to Edinburgh's economy; what MSPs can do not just to support the retention of jobs but to bolster the banking and financial sectors in Edinburgh for the future; and protection for staff and customers now and over the coming weeks.

I cannot be alone in feeling that it was completely surreal how swiftly events unfolded last week as we were in the chamber. We cannot underestimate the massive uncertainty that was created for people who work for HBOS and Lloyds TSB and their customers. I was involved in a radio debate last week in which a financial commentator was critical of MSPs' emotional statements. That was not a fair characterisation of the chamber's response, which I thought was measured.

People in the banking industry are anxious and they need coherent, sensible responses from us. They also need to know that we are on their side and that we are lobbying to demand fairness around the future of their jobs. Thousands of staff are at their desks, dealing with uncertainty and worries about their personal situations, but working hard to deliver business as usual for their companies and the many customers who come in and out. That is why, whatever happens in the medium to long term, it was important that immediate action was taken last week to protect the bank.

Tough questions need to be asked. We need more transparency and accountability in our banking and finance systems. Alistair Darling was absolutely right to focus on the need for a business and enterprise culture that rewards people for taking the right long-term decisions, not just short-term ones. We need to have a debate about bonuses, not on the basis of envy but on the basis of fairness to customers, investors and the thousands of HBOS shareholders who are ordinary staff who hold shares as part of their pay deal.

It is an anxious time for those staff. I well remember the presentation that many of us attended only a few months ago at a business breakfast in the Parliament when Susan Rice of Lloyds TSB shared with us the Lloyds TSB strategy. She observed at the time—she was slightly self-deprecating about this—that people in the City regarded Lloyds TSB as being a bit too cautious and conservative. Her view was that in a time of coming financial crisis and global turbulence in the markets, it was absolutely right to be cautious with her investors' money. How right that sensible banking approach has proven to be.

We need to focus on what the Scottish Parliament and our ministers can do now, and our debate must focus on the role of HBOS and Lloyds TSB in not just the Edinburgh economy but the wider Scottish economy.

In recent years, we have seen major reorganisations, shake-ups and company changes involving Standard Life and Scottish and Newcastle, and the Scottish Widows-Lloyds TSB deal. It is critical that we support the financial and banking sectors in Edinburgh, which are hugely

important to our local economy and to the economies of Fife, central Scotland and Glasgow. That is why, throughout the first three sessions of Parliament, we have lobbied consistently to support development in Edinburgh. It is now critical that we ensure that Edinburgh remains attractive to the banking and financial sectors. It is not just about rivalling Frankfurt or the City of London; it is about complementing that approach by promoting our city's attractiveness as a banking and financial services area.

Headquarters status is important for prestige and for the seniority of the jobs that we can retain in the city. However, a raft of other jobs need to be retained in the legal, advertising and wider services sectors, including the hotel and catering industry. We need to lobby for as many of the HQ functions as possible to be retained in our city.

There are areas in which we can deliver practically. I would like to hear more from the SNP ministers in their summing up about skills and training, which are essential for people who are in the industry and critical for attracting more jobs. It is important that we have a highly skilled labour force. We have fantastic universities in the city and throughout Scotland. We need to ensure that there is access to new jobs for the future across the whole of central Scotland.

Transport connectivity is crucial, too. That is why the business community was so supportive of transport upgrades over the past few years, such as investment in trams and in public transport to Fife and Glasgow. That investment must continue—in fact, it must be accelerated.

This is also about quality of life. That is why investment in new schools and infrastructure is absolutely crucial. I ask the Scottish Government to assist the City of Edinburgh Council, because we need investment in new schools. There is no prospect of revamping or rebuilding Boroughmuir high school, James Gillespie's high school and Portobello high school. They all need major investment and the council simply does not have enough money. Investment in new housing is also needed to enable people to remain in the city, rather than having to leave.

Over the past decade, we have seen massive investment in the city in skills, transport, schools and housing. We have built a reputation, which, like the quality of life in the city, must be defended. SNP ministers have to work with our council to give us sustained, long-term public investment and to ensure that we match investment in the private sector. That is what we will be looking for from this Government. We will work with it to deliver, but it needs to make more investment in practical public services now.

15:42

Roseanna Cunningham (Perth) (SNP): Whatever else Scotland expects us to do as a result of this crisis, the one thing that it will expect is that we stay united in our response. I am sorry that some discordant voices are beginning to be heard, because that will weaken any real attempt that we, as a Parliament, are making to move forward.

The origins of the crisis go back quite a long way. It is a year since we started to see the queues outside Northern Rock, so it is not as if the crisis, in the bigger sense, has come upon us suddenly.

Many of us have had to become conversant with terminology such as bear raids, short selling, collateral debt obligations and securitisation—all the things that are now exposed to the light of day. Dubious practices and so-called products are dressed up with fancy titles to make us think that they are real, when in fact they are not. The lid is well and truly blown off the smoke and mirrors of the money market.

The crisis is taking place against a background of rising fuel prices, energy costs, food costs and personal domestic inflation, which is very high in comparison with the official figures. All those things mean that people are feeling vulnerable, and the shock that Scotland experienced over the past week adds to that feeling of vulnerability. We must remember that when we have these debates.

There might be suspicion about when the HBOS-Lloyds TSB merger talks really began. I have no inside information and I do not suppose that any other person in the chamber does, either—other than the speculation that we read about in the press. I am not sure that, in the absence of fact, there is much to be gained from talking about the merger in those terms.

Margo MacDonald: The chairmen of both banks are on record as having said that they had talked about a merger of their banks for years.

Roseanna Cunningham: I appreciate that and I have read the same newspaper reports, but official merger talks are not the same as having a chat over a cup of coffee. However, that relates to how the market works, and I am not an expert in that.

I heard last week, on Tuesday night or Wednesday morning at the latest, that a bear raid on HBOS was taking place, so the decision to suspend short selling after that was known was—*[Interruption.]* I see members shaking their heads, but that is what I heard. Perhaps BBC Scotland was completely wrong in reporting that, but if reporting was taking place, it is clear that that was apprehended to be happening. The suspension of short selling was right, so I am a little surprised

that it did not happen sooner last week. I go further: given that we are a year down the line from the rescue of Northern Rock, I am surprised that more such movement has not taken place in the past year.

Robert Brown (Glasgow) (LD): Will the member give way?

Roseanna Cunningham: No—I need to get on, thank you.

I believe that the high street overlap between Lloyds TSB and HBOS will be greater than first imagined. In my constituency, that overlap occurs not just in Perth, but in Crieff, which is a town of only 6,000. Job losses in small towns will be pretty important.

My constituency also has back-office jobs at Broxden business park. A perfectly simple request at the end of last week for the current number of employees there met a brick wall of silence, so I am grateful that the Government will put into the public domain more detailed information. That silence does not do much to make me confident that the protection of jobs in Scotland will be taken seriously. I hope that the Government will keep on top of that.

I hear that credit was pulled from businesses last week. I know that one business in Dunfermline is fighting for its life and I wonder how many others throughout Scotland are affected. Will the Government keep tabs on that important matter?

Murmurings of discontent about the merger are obvious—they go beyond questions about when the talks began. Critical questions are being asked—as recently as this morning, Sir Donald MacKay made interesting comments about what needs to be done in *The Scotsman*. I hope that the Government will not just stay on top of the existing proposal, but ensure that any other reasonable options are explored, even at this stage. We must all try to keep that in front of us.

I echo a little of what Annabel Goldie said about being careful not to cast a shadow over the whole Scottish financial sector. I am lucky that Norwich Union has designated Perth, out of the whole UK, a key centre of excellence—another is in Bishopbriggs, so two of the seven centres are in Scotland. Norwich Union is expanding and is growing its commitment to Scotland. Its fundamental confidence in the Scottish financial sector is huge, although it faces a challenge on skills and on infrastructure. We should not do the whole sector down simply because we have concerns about the current situation. I hope that the Government will consider a nationwide impact study of what is going on.

Having come from the left, I remember being told constantly that there is no such thing as a free

lunch. I must say that it is obvious that there ain't no such thing as a free market, either. Perhaps it is time that everybody woke up to that.

15:49

Ms Wendy Alexander (Paisley North) (Lab): Roseanna Cunningham talked about the need for unity in the Parliament. I believe that we have total unanimity about the four objectives that the First Minister outlined in his statement. The question is how we realise those objectives best. A Parliament's job is to make sense of events, to shape policy and to set the right course for the future.

Let us apply those tests to the past week. How has Parliament made sense of events? In truth, we have been subjected to a series of myths that our First Minister has fuelled.

Myth number 1, that HBOS was laid low by "spivs and speculators", is simply wrong. Short selling was a symptom, not a cause, of the problem, and the First Minister knows it.

Myth number 2, that Scotland was the main loser, is also wrong: I cite Northern Rock, Bear Stearns, Lehman Brothers, Merrill Lynch and, as of yesterday, the fact that there is no longer a single pure investment bank in the United States of America. The crisis was a global crisis in which exposed banks were the main losers.

Myth number 3, that offering up £100 billion of Scottish taxpayers' cash would have been more desirable than the proposed merger, is also wrong. That would have cost each hard-pressed man and woman and child—about whom Roseanna Cunningham has just spoken—£20,000. I could go on, but I do not have time.

Why did the First Minister feed the nation those myths?

The First Minister: The case for hard-pressed taxpayers' cash might have been better made in respect of Northern Rock. The £100 billion to which Wendy Alexander referred is a liquidity availability—it is the £100 billion that the Bank of England made available on Friday. Would that it had been made available a week earlier—we might not be in the situation that we are now in.

Ms Alexander: I will address in a moment the crucial issue of how liquidity might be provided in Scotland in future.

I asked why the First Minister fed the nation those myths. He did so because he wanted to milk the age-old sense of victimhood: we wis robbed. However, he knows that Scotland has moved beyond that; he knows that perpetuating such myths does not help in making sense of a global crisis.

What Scotland seeks is sound analysis. That brings me to the second responsibility of the Parliament, which is to shape policy. We all know where the SNP stands on short selling, or at least we think that we do. However, we listened in vain today for any clue as to where the SNP stands on the big issues that face policy makers across the globe.

What is the SNP's strategy for dealing with the toxic paper in Britain? Does it, like Hank Paulson, favour rewarding moral hazard? What is its strategy for tackling the bonus culture? We do not know. How do we best ensure transparency in the shadow banking market or oversee structured investment products in future? How would it reform the credit agencies? I could go on. Suffice to say that it will be the political statesmen who will offer the solutions; the political spivs will simply run for cover.

Let me turn to the third and final responsibility of the Parliament: setting the right course for the future. The First Minister says—and I believe him—that he will "strain every sinew" to secure Scottish jobs. However, as he knows more than anyone, that is not about the number of meetings that are hosted; it is about the operating climate that is created.

I accept that it may be too much to ask the First Minister to take on board what the Opposition parties are saying. However, the test of his seriousness is whether he is willing to listen to his Council of Economic Advisers—expert advisers whom he did not mention in his statement. Next week, the council meets well before the First Minister makes the business case for Scotland to Lloyds TSB. I challenge him to let Scotland hear what his economic experts have to say on the matter. Do those top economic experts believe that a local income tax will help to attract headquarters functions to Scotland? Do they believe that using tried-and-tested methods, such as the public-private partnership, will increase deal flow in Scotland's public infrastructure investment?

What should the First Minister say to Lloyds TSB on the future shape of financial services regulation in Scotland? Will he commit Scotland to staying under the FSA umbrella for the next five years or to leaving its shelter? What is the First Minister's answer to those questions?

I listened to the First Minister's non-answer to Tavish Scott, so perhaps he will enlighten us as the debate concludes. Will he tell Lloyds TSB that his Government favours a Scottish central bank as the lender of last resort to Scottish-based institutions, or does he favour sticking with the Bank of England or moving to the European Central Bank?

The Deputy Presiding Officer: The member must conclude.

Ms Alexander: Uncomfortable as some of those questions may be, they are the questions that future investors will ask. If we are to strain every sinew in the interests of saving jobs, it would be useful to know the answers.

15:55

Gavin Brown (Lothians) (Con): I echo my colleague Derek Brownlee's welcome for the four objectives outlined in the First Minister's statement. We concur with them, and the idea of having all the party leaders and spokespeople at the SCDI event on Tuesday was excellent, too. If we can foster that political consensus, it will be to the benefit of the bank, the sector and the rest of Scotland.

To maintain that consensus, what the First Minister says in this chamber must be reflected in what is said outside. I will return later to some of the points that were made at the weekend about viewing the situation through the prism of independence.

I want first to pick up on Alex Neil's point. He basically suggested that some liquidity from the Bank of England last week would have saved HBOS in its entirety. Exactly how much liquidity should have been put in on Wednesday to ensure that that happened? He did not take my intervention because he did not have time, but I am happy to give up some of my six minutes to hear exactly how much liquidity Mr Neil thought was needed.

Alex Neil: I thank the member for giving me another opportunity. The point is simply that, if the Bank of England had pumped in the liquidity on Monday instead of Friday, HBOS would still have been with us, without the threat of merger.

Gavin Brown: I thank the member for his holding answer. My simple question was: how much? I did not ask on what day the liquidity should have gone in. The crisis unfolded on Wednesday. If, in his view, the liquidity would have made a difference, it would have had to come before Wednesday. I notice that the member was silent—unusual in his case—on the actual amount that needed to be put in.

Alex Neil: Will the member give way?

Gavin Brown: On this one occasion, I will take another intervention.

Alex Neil: With all due respect to the member, the figure would have been entirely different depending on which day the liquidity was pumped in. If it had been pumped in on the Monday, the

bank might not have needed as much as on the Thursday.

Gavin Brown: I will not take any more interventions from Alex Neil, although we are still no closer to an answer on how much liquidity needed to be put in. It is important to note that, although it is convenient to blame the spivs and the short sellers, the facts have not borne out that they are to blame. I will return to that shortly.

I will concentrate on the overriding principles that we want to put forward. As I said, we appreciate the Government's objectives, and of course we want as many HBOS and Lloyds TSB jobs as possible to remain in Scotland. We want a headquarters option in Scotland that is as strong as possible, we want as big an influence as possible, and we want the brands to remain strong, growing over time.

It is important to explore further the short-selling blame game. Evidence from Data Explorer, the market leader, shows that, at most, 3 per cent of HBOS's shares were available for short selling last week. That is 3 per cent as an absolute maximum, which means that the shares sold during the week, including on Wednesday, were not part of short selling: people who genuinely held shares in HBOS got rid of them.

That ties in with what happened in the rights issue—a £4 billion rights issue in which there was only an 8 or 9 per cent take-up by HBOS shareholders. It is not for us to say whether the business plan was good or bad—I certainly do not have that technological knowledge—but the shareholders clearly made their judgment about the rights issue, and another judgment was made on Wednesday. It is convenient, and it might suit certain people's purposes, to blame the short sellers, but if we blame the wrong people, we do not learn the right lessons for the future. That is why it is important to have a more careful analysis of what happened on Wednesday.

That is also why, as Annabel Goldie outlined, we have grave reservations about the First Minister making comments about how he would have saved the bank had the situation arisen in an independent Scotland. It is all well and good for him to say today in the Parliament that that is not what he said or meant, but that is the first time that I have heard any utterance from him trying to backtrack on what he said; it is certainly the first time that he has said that it was not what he meant. I am sure all will agree that the First Minister is a perfectly clear communicator and that it seems highly unlikely that it was not what he meant.

Annabel Goldie put forward some of the wider Conservative propositions. In a disorderly market, the temporary ban on short selling—as long as it is

temporary—might calm things down. We want more effective regulation, as opposed to more regulation. We also want to increase protection for savers, guaranteeing deposits of up to £50,000. As David Cameron has suggested, we may have to re-examine the Basel II agreement, which has a global impact on reforms within the banking industry. We also need to examine how the credit rating agencies operate: they sold off derivatives and credit default swaps with AAA or AA ratings, which meant that many organisations purchased them believing that they were a good bet.

HBOS can have a great long-term future in Scotland, as can financial services as a whole, but the First Minister will be judged on what he does, not on what he says he would have done.

16:01

Ross Finnie (West of Scotland) (LD): I agree with the commentators and, indeed, members who describe the current financial collapse as the most predictable crisis in history. For years, many commentators—including, I am glad to say, the Liberal Democrat economic spokesman at Westminster—have warned about unsustainable levels of bank credit and personal debt. It is incredible that financiers on both sides of the Atlantic deluded themselves into believing that the housing market boom would never end. That delusional belief was aided and abetted in America by the Bush Administration and the former chairman of the Federal Reserve, Alan Greenspan. As a result, the scale of the implosion in America has triggered a global financial crisis.

However, it would be wrong to pretend that the UK has not contributed to the crisis. As Tavish Scott pointed out, our Labour Government propounded the equally delusional claim to have abolished the boom-and-bust cycle to which all capitalist economies are prone. The Labour Government did not cause the crisis but, as our economic spokesman has pointed out, it

“forgot that financial success breeds excess; unearned rewards feed greed; and overconfidence leads to folly.”

New Labour incubated a culture of financial gambling with other people's money that has contributed to the collapse of trust in financial institutions and bred a dangerous dependence on debt.

Margo MacDonald: Does Ross Finnie agree that the situation that he has just described points to the need for immediate and much better regulation?

Ross Finnie: I shall come to that.

Liberal Democrats warned that individuals and families were acquiring unsustainable levels of debt. Most of that debt was secured against the

illusory wealth of rising, vastly inflated property prices, and people were encouraged to believe that the rises would go on for ever. Now, the nation has to cope with the consequences of an exploding market bubble. Many houses cannot be sold, bank lending is insufficiently supported and the house building industry is collapsing. Everyone in that industry and, just as important, everyone associated with it is fearful for their job. Individuals and families face negative equity, and those who cannot service their mortgages face the threat of repossession. The Prime Minister's claim to have delivered prosperity and economic stability loses credibility as each day passes.

In that febrile financial market, delusion turned into contagion when we read the reports—now corrected or denied by him—that the First Minister would have made £100 billion available to the Bank of Scotland.

However, we must move on. Looking forward, Liberal Democrats believe that it is right for Government to permit its central banking organisations to intervene to support the nation's core financial institutions. However, in doing so, Government should not prop up failed bankers. If confidence is to be restored in our banking system, all those who took excessive risks, set aside prudent capital ratios and were content to trade in financial instruments that they apparently did not understand must be removed from positions of responsibility. Bluntly, that means that, closer to home, Mr Hornby and all those who brought HBOS to its current state should have no part to play in the future of HBOS, whatever that might be.

House price inflation must never be allowed to rip ahead as it has in recent years. That is why Liberal Democrats called some time ago for the monetary policy committee to be made responsible not only for headline inflation but for house price inflation.

I say to Margo MacDonald that it is self-evident that banking regulations have failed. Unfortunately, however, it is not clear precisely which elements in the extensive framework that the FSA set up failed and how they failed. Therefore, my colleague Tavish Scott's call for a joint inquiry by the UK and Scottish Parliaments into the matter is apposite.

The choice for the future of the Bank of Scotland seems to me to be stark: either its inherent strengths in retail and business banking are recognised and developed as a separate banking entity, or it simply becomes a sub-branch of Lloyds TSB. Something that just has a brass plate on the Mound, holds an annual general meeting there—gosh, that is important—and issues banknotes does not even merit the title “sub-branch”. The latter course is too awful to contemplate.

Therefore, like most members in the chamber, Liberal Democrats support the four objectives that the First Minister set out.

Liberal Democrats are broadly in the same camp as Sir Donald MacKay, who, writing in *The Scotsman* this morning, implored Lloyds TSB not simply to absorb the Bank of Scotland into its corporate structure but to recognise that, subject to due process, it will acquire an institution with enormous potential to be re-established as a major player. We want all those concerned to be clear that doing that would add value for the employees and the shareholders of an enlarged group—that is the course of action that we recommend.

16:08

Angela Constance (Livingston) (SNP): The role and purpose of the Scottish Government is to represent and advance the Scottish national interest, not least in times of adversity and uncertainty. As a constituency member, I have a duty to represent my community in the context of the challenges that are presented by the recent demise of HBOS and its subsequent possible merger with Lloyds TSB.

Political endeavours to date have rightly focused on the high-level and strategic discussions about retaining jobs in Scotland and ensuring that we get the best deal for Scotland. They have promoted the necessity for key head office decision-making functions to remain in Scotland. However, our focus will have to turn at some point to communities across Scotland such as mine because—make no mistake—banks, like post offices, provide a community service as well as a commercial one. They are part of our social fabric and they add to both the social and the economic viability of our smaller towns and villages. We must not lose sight of that.

For that reason, I welcome the First Minister's comment that we must consider the needs of the whole of Scotland and not just those of the capital city, however important Edinburgh is. In the wake of the takeover of HBOS by Lloyds TSB, I believe that West Lothian is particularly vulnerable to branch closures because of the distribution of branches of HBOS and Lloyds TSB—for every Lloyds TSB branch, there is an HBOS just down the road.

Local concerns escalate when we consider what might happen to Intelligent Finance—a division of Bank of Scotland plc and part of HBOS—whose customer services operations are located in Livingston and Rosyth. Between them, those sites accommodate 1,200 workers. In scrapping Intelligent Finance accounts and credit cards, HBOS has already affected 400 jobs. The closure

of HBOS's mortgage processing centres will affect jobs in Livingston as well as in Chester and Cardiff.

Recent events come hot on the tail of announcements of other job losses in my constituency over the past 12 months—by HSBC, Glenmorangie and Bausch and Lomb. Although unemployment in West Lothian stands at only 2.3 per cent, which is lower than the Scottish average and the same as the UK average, we in West Lothian are hypersensitive to the possibility of job losses because of vivid memories of the early 1980s, when one in four of the male working-age population was unemployed. My father was one of those men. Every West Lothian family has been touched by unemployment at some point in the recent past. Although West Lothian is to be commended for turning round its local economy, we can ill afford to lose more jobs. Therefore, I ask the cabinet secretary to consider in his summing-up speech how best we can take forward the specific needs of communities and, in particular, whether local authorities might have a role, given their economic development functions.

Sadly, job losses may indeed be inevitable. In *The Scotsman* last week, Peter Jones predicted that Scotland would lose 3,000 to 4,000 jobs within a year, based on the 15 per cent loss of jobs that occurred following the merger of the Royal Bank of Scotland and NatWest. Arguably, that could be a conservative estimate, given that the e-mail that was sent to staff by the HBOS chief executive, Andy Hornby, insisted only that "the majority" of HBOS employees would keep their jobs. Obviously, that leaves concerns about what will happen to the minority—potentially, 49 per cent.

Like most people in the real world outside the Parliament, I do not claim to be proficient in the intricacies of the stock market or the financial services sector, nor have I ever met a spiv or speculator. However, like most people, I must ask how this was allowed to happen. We live in a country that is highly regulated. Some would argue that we have a tendency to overregulate. We gold-plate basic regulations. My local council cannot put in flood prevention schemes without having to advertise work in Europe, while my constituents lie awake worrying every time that it rains. It is ludicrous and ironic. To quote Professor Ronald MacDonald:

"We need much better regulation of the financial sector as it has been very lax and we are reaping what we've sown in the sense that it is a poorly regulated financial sector."

Of course, Alistair Darling has been talking about tightening the regulation of the financial industry since the Northern Rock collapse, but nothing has happened. In October 2007, Alistair Darling said that the Labour Government would

lead an international effort to learn lessons from the run on Northern Rock and develop a new regime that would restore stability to the financial markets. A year later, he was still making the same promises in his speech to the Labour Party conference. Too little, too late.

There is deep anger and a deep sense of loss over what has happened to HBOS. As we turn our eyes to the future, I hope that we can unite and do what we can at a practical level to save jobs.

16:14

Malcolm Chisholm (Edinburgh North and Leith) (Lab): I do not need to remind members today of the importance of the financial services sector to the Scottish economy in general and to Edinburgh in particular. In the first seven years of this century, our financial services sector grew by 60 per cent. Seven of the top 20 Scottish companies are in the sector and up to one in 10 Scottish jobs depends on it. Here in Edinburgh, which is the second-largest financial services centre in the UK, thousands of people are employed in the sector, including 6,500 HBOS employees.

I know that we are all united today in our determination both to protect HBOS's customers and to preserve as many jobs as possible here in Scotland. I hope that the new company that is about to be formed by the merger will engage immediately in comprehensive talks with the recognised trade unions and, as soon as possible, give a guarantee that there will be no compulsory redundancies. We are concerned not just about jobs in general but about having headquarters functions in Edinburgh, with as much decision making as possible done in Scotland, up to and including new corporate headquarters. I wish the First Minister well in the presentation that he is to make about that.

Of course, we are looking forward not just to any old decisions but to correct decisions, based on a correct analysis of what is going on. Correct decision making and analysis are important for bankers, and there have certainly been deficiencies in that regard, as the president of the Chartered Institute of Bankers in Scotland argued last night. I submit that it is also important that we politicians have a correct analysis of what has been going on.

The Government and its supporters have tended to say that we should not discuss contentious matters in the chamber today, but they were the first to make contentious assertions about "spivs and speculators" and they blamed the UK Government for not acting in, as they see it, a decisive fashion. They have also claimed how much better it would all have been in an

independent Scotland. It is important that the issues are addressed today.

We have to challenge a simplistic analysis that is based only on blaming "spivs and speculators". Of course we should criticise them, and short selling should have been suspended, but only 3 per cent of HBOS shares were shorted last week, compared with 5 per cent of Barclays shares. Short selling was not the fundamental cause of the problem, as many eminent economists have emphasised in the past few days. For example, Michael Moss, a research professor at the University of Glasgow who has written several books on Scottish financial institutions, said:

"To blame speculators, as Alex Salmond did, is lunacy."

The First Minister: I do not know whether Malcolm Chisholm had the opportunity to hear the Prime Minister's speech yesterday, but he made a ferocious attack on speculators. Was that also lunacy?

Malcolm Chisholm: I also criticised spivs and speculators about 30 seconds ago. It is one thing to criticise them but another to say that short selling was the fundamental issue.

I would be the first to praise HBOS for the support that it has given to many enterprises, to voluntary organisations such as the PROP-Stress Centre in Pilton in my constituency, and to thousands of customers. However, HBOS got into difficulty because of fundamental business mistakes, as one of the First Minister's advisers, Professor John Kay, emphasised the other night. It was overreliant on the wholesale market and there was an unsustainable gap between its deposits and loans, many of which were risky. Investors have been taking fright for months, which was why the £4 billion rights issue was such a failure. It was shareholders far more than spivs who repudiated the bank.

The First Minister: We should be a bit careful about believing that wholesale markets are not legitimate. Does the member accept that, in terms of quantity, the reliance on the wholesale market of HBOS and Lloyds TSB as separate organisations will be exactly the same as that of any new merged company if it accepts the Government's strictures not to withdraw from the mortgage market?

Malcolm Chisholm: Of course, all banks have to rely on wholesale markets, but it is about the extent of the exposure, particularly in the past year since the start of the credit crunch.

If the First Minister was wrong about "spivs and speculators", he was equally wrong about the role of the UK Government. There was no request for a line of credit last week, and the UK Government got it right to act and give guarantees on the

merger. We can argue for the relocation of the headquarters because the new company will be a UK institution. We should also argue that the Bank of Scotland should remain as a legally constituted bank with a separate licence and board within the new larger organisation, in the same way as Lloyds TSB, which currently has a separate legal entity in Scotland and a separate board.

More generally and fundamentally, we need to recast the financial system using different principles, with much tighter regulation. As Will Hutton said last night, a small country such as Scotland cannot do that, but the UK can. The UK can also lead the case for new global standards on supervision that match the global flows of capital.

Last week was the nearest that we have come to 1929 since 1929, and we must respond with the urgency and radicalism that are required, unlike in the 1930s. That will no doubt include lowering interest rates and redefining the objectives of monetary policy, but what is crucial in the context of today's debate is that it must involve much greater financial transparency and much more effective financial regulation.

16:20

Margo MacDonald (Lothians) (Ind): If Harold Wilson was right when he defined a week as a long time in politics, I wonder how he would have characterised the past 10 days in the money markets—as a millennium, perhaps.

People who know how many beans make five have said that the events of the past few days created a set of circumstances that occur only every 100 years or so. Mrs Thatcher said, "You can't buck the markets." Might I therefore suggest to HBOS shareholders, the employees of HBOS and Lloyds TSB, and people of good will who have the best interests of the Edinburgh, Glasgow and Scottish economies at heart that it would be prudent to get their retaliation in first to the proposed takeover of HBOS by Lloyds TSB?

The chief executive of the Chartered Institute of Bankers in Scotland, Simon Thompson, whom other members have mentioned, practised what I am preaching when he said last night that banks were discredited rather than in credit. He urged not just regulation but education to help to rebuild confidence in the banking system.

Bankers must be honourable because their decisions directly affect the lives of every one of us. In Scotland, bankers enjoy a reputation for probity but, as the past few days have rollercoasted onwards, that priceless asset has been damaged by what many people consider to have been the unseemly haste with which the

terms of takeover were agreed by HBOS and Lloyds TSB.

Only a week ago, on the basis of the bald evidence that the collapse in the share price of HBOS had been stopped by news of the proposed takeover, in common with most MSPs, I thought that Gordon Brown and Alistair Darling had had no choice other than to fast-track the takeover and skip over some of the usual processes surrounding mergers and takeovers, such as giving the stock exchange early warning so that share dealing might be suspended in order to protect the value of shares against speculators and the seedy elements that attach themselves like limpets to the money markets.

Most of us did not know all that much about the processes that were in play during the takeover, but we ken noo. It is just possible that the Prime Minister and the chancellor really had no choice, but after the chairmen of the two banks admitted that for years they had desired to merge them but had been unable to do so because of competition law, a suspicion no bigger than a man's hand came into sight, as people marvelled at how the ill wind of sub-prime mortgage lending coming in from the other side of the Atlantic had done such good for the chairmen's hitherto forbidden dreams of merger. Should we ignore Sir George Mathewson when he says that some people were trying to do down the banks?

After hearing highly credible figures in financial services praise the business management of HBOS, other people began to ask whether another response might have been adopted to the run on share prices. Even now, shareholders in both banks, who still have to endorse the deal, will no doubt have seen Carla Antunes da Silva's comments casting doubts on how good the agreement is for HBOS and Lloyds TSB shareholders alike. Although that particular market analyst, who works for JPMorgan, says that now is precisely the wrong time to create the size of bank that is proposed, its size has been stressed by proponents of the merger as one of the strongest points in its favour. The possible loss to customers as a result of the loss of competition in the sector has been skimmed over.

In Scotland, we were assured of the sensitivity to, and knowledge of, the Scottish situation. The whole Scottish economy has blossomed as a result of the critical mass of financial services that has been established in Edinburgh and Glasgow. Given that Edinburgh is arguably the driver of the Scottish economy, Lloyds TSB has stressed how the proposed merger will pan out. Annual general meetings will be held here, as Ross Finnie said. As I suggested yesterday, maybe Lloyds TSB people will come up for the festival and give

everyone some free tickets so that we can make a real show of things.

What a transfer! The Mound will still be home to the new bank's Scottish HQ, but no one has yet told me what level of corporate function will be practised from there. I hope that when the minister sums up, he will say whether the Government has established a baseline for the services that it wants to be operated from that location. Such high-quality jobs inside the sector, and the highly skilled and well-paid jobs that link into financial services—to say nothing of the hairdressers, the taxi drivers and the leisure and entertainment industry staff—will also be gone from Edinburgh if we do not get this right.

We are told by the Prime Minister, the chancellor and the men who made the deal that these are problems of the global economy. The Prime Minister—of course, it could have been his wife—said yesterday that there had to be a global solution. I do not disagree, but, if HBOS is to be taken over, would it not be a better solution for the Scottish economy if, rather than rebuilding from within, with the Bank of Scotland reverting to a more traditional role, as outlined by Donald MacKay today, we went really big? A big global bank could take us over and we could be the European headquarters of such an outfit. That sounds a good job for anyone working on the Mound. That way, the integrity of the corporate functions would stay here.

However, as people in top jobs relocate and other Edinburgh people see their businesses grow smaller or their jobs outside the financial centre disappear, the market value of houses will fall, and many of the people whom I represent could find themselves in the same position as American home owners who took on mortgages that left them with no financial security and who have been hit by unemployment and are now homeless. I do not want to talk down the possibility of a good deal being made, but neither do I want to flatter people who think that they will give only what they have got on offer at present.

16:26

David Whitton (Strathkelvin and Bearsden) (Lab): This is a serious debate because it is a serious problem. There is probably not a member of this Parliament who does not have an HBOS employee or account holder among their constituents and, for constituency members, branches of both HBOS and Lloyds TSB. I am told that there might be as many as 150 locations where both banks have premises in the same street. That is certainly true of Kirkintilloch in my constituency. A lot is at stake.

It is important, however, that we put the blame for the situation in which our oldest bank finds itself where it belongs. It was not short selling that brought down HBOS; it was the policies of its board under the leadership of chief executive Andy Hornby. I echo Ross Finnie's comment that it is Andy Hornby and other senior executives who must carry the can, not their hard-pressed workforce. There is a story that HBOS's own subsidiary, Insight Asset Management, was involved in lending out stock to short sellers. As one analyst put it, "They behaved like turkeys voting for Xmas."

According to Stephen Boyd of the Scottish Trades Union Congress:

"HBOS Executives are hardly blameless. It wasn't the spivs who left the Bank over exposed to commercial property and sub-prime debt or too reliant on the wholesale markets."

Indeed, I am told by financial sources that those in Scottish financial circles have known for some time that HBOS was in serious trouble. If they knew, the market knew. That was reflected in the response to HBOS's share issue. The bank was not doing any business and some of its major customers were asking pointed questions about the security of their deposits. Last Tuesday night, those trying to use phone banking to make cash transfers to other banks were being told that no transactions could be made until the following day.

It is not good enough for the First Minister—a man who boasts about his economic credentials—to claim that HBOS was laid low by the actions of spivs and speculators, especially when it turns out that the spivs he is attacking are hedge fund operators and that included in their number is Sir George Mathewson, who chairs the First Minister's Council of Economic Advisers. I would not dream of calling Sir George "Sir Spiv". I note his description of short selling as "perfectly valid", and I wonder whether he agrees with the sentiments of some enraged hedge fund operators, angry that the Government here and others elsewhere have temporarily banned short selling. One city fat cat commented today that regulators should have better things to do. I agree—they should have better things to do, and they should have been doing them before now.

The First Minister: I have tried to get a point of unity. I am delighted that action has been taken against short selling by a further 13 countries in addition to those that have already taken it. I am particularly delighted because when I spoke to the Prime Minister last Thursday morning and suggested that that might be a productive course of action, he gave me no indication whatever that that was in the mind of the United Kingdom Government. Twelve hours later, the FSA took action against short selling. The FSA said that it

had done so on its own initiative; it was its own decision, taken after considering the abuses that were taking place in the market. Whether the decision was taken with political support—

The Deputy Presiding Officer (Trish Godman): First Minister, is this an intervention?

The First Minister:—or whether it was taken just by the FSA, I am delighted that it happened. I am only disappointed that it did not happen much earlier.

David Whitton: I do not think that I need to respond to that short speech.

The First Minister quoted the Financial Services Authority as saying that HBOS was a highly capitalised bank with excellent ratios. I wonder how it managed to come to that conclusion when, as I have said, there was plenty of rumour in Scotland that all was not well. Perhaps some investigation into the workings of the FSA is in order.

At the Economy, Energy and Tourism Committee meeting this morning, we debated the effects of the credit crunch on Scotland. In particular, we considered the effect on the housing and construction market. It is clear that the housing and construction sectors are facing real difficulties. In Edinburgh alone, sales are 60 per cent down on last month and 6,500 properties are on the market. The picture is not much better in Glasgow. Sarah Boyack spoke earlier about investment for Edinburgh. The committee heard that the delay in the SNP Government putting any detail on its Scottish Futures Trust for infrastructure investment was causing serious problems.

The Minister for Transport, Infrastructure and Climate Change (Stewart Stevenson) *indicated disagreement.*

David Whitton: Mr Stevenson may mock, but that information came from people in the building sector. Perhaps he should listen instead of shaking his head.

So what is to be done? I welcome the fact that the First Minister's first objective is to protect jobs in Scotland. If he is going to make a case to the Lloyds TSB board for jobs—"the Scottish offer", as he describes it—I urge that he does not ask but insist that the board impose a freeze on its current plans to send jobs offshore and, in particular, to contact centres in India. HBOS does not do that, and a similar commitment from Lloyds TSB would send a strong signal to Scottish bank workers who are worried about their future. While he is at it, will the First Minister also insist that Lloyds TSB commit to no compulsory redundancies?

In a debate on tourism last week, I asked the SNP to consider setting up a tourism investment

bank similar to that in Austria. The STUC has produced an excellent briefing paper for this debate—which I trust that the First Minister will take time to read if he has not already done so—and I draw his attention to two particular points. First, the STUC calls for the establishment of a Scottish investment bank to provide long-term capital to growing Scottish companies; and secondly, it appeals to the Council of Economic Advisers to start to interact with stakeholders in the economy, including trade unions.

Perhaps, in the interests of Scotland, the First Minister should give serious consideration to Wendy Alexander's suggestion that he withdraw his plans to introduce a local income tax to Scotland. As she said, if we want to preserve jobs, encourage inward investment and set up corporate headquarters, the last thing we need is to be tagged the highest-taxed part of the UK.

The Deputy Presiding Officer: We now move to wind-up speeches.

16:33

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): In the past week, the Scottish and world economies have seen a number of ironies. The first lies at the door of the Prime Minister. In 1989, he wrote "Where There's Greed: Margaret Thatcher and the Betrayal of Britain's Future". It was an analysis of unfettered greed, of abusive markets, and of the need for a moral form of balance in the free market economy. As chancellor, he oversaw an economy and made it—with regard to support of Alan Greenspan's economic policies in the United States of America—develop a situation, as my colleague Ross Finnie said, in which the United Kingdom now has more than £1 trillion of personal debt. In the USA, the policies led ultimately to the position at Lehman Brothers, where the annual bonus bill last year was £20 billion—about four times the salary bill. The culture of bonuses meant that the business model was so skewed towards risk taking, without there being a sound strategy, that things ended up with an astonishing potential exposure of \$340 billion.

The First Minister has rightly said that we have not been immune to the world economy. However, in a speech in May to the financial sector in Scotland, his analysis was this:

"Looking at the global perspective, we hope—but cannot yet be sure—that the worst is over. I have seen estimates that around two thirds of banks' losses have already been declared."

That was simply wrong.

Within the past week, he has given his analysis of why HBOS was "laid low"—to use his language—by short sellers. There has been

universal concern about short selling, not only in the past week, but before the summer. Indeed, the chairman of the First Minister's Council of Economic Advisers, Sir George Mathewson, operating Toscafund Asset Management, was himself attacked by short selling in June.

The FSA made a statement about HBOS last Wednesday morning, which the First Minister quoted accurately. It reminded me of when Norman Lamont stood on the Treasury steps on black Wednesday and reassured the market that everything was all right. The similarity between the two occasions is that the markets did not believe what they were told. They did not believe the FSA, nor did they believe Norman Lamont.

The First Minister also stated that last week saw a big change in HBOS's position. However, the bank's share price dropped more between last year and three months ago than it did during last week. A year ago, HBOS's share price was £8.41. Three months ago, it was £2.74, and last week it was £1.47. The biggest fall happened between a year ago and three months ago, and not during the past week.

The First Minister: I did not say that the impact happened in the past week. The point about the Financial Services Authority is this: when the financial regulator makes a statement that validates the funding model, capitalisation and profitability of a bank, if the regulator is to retain credibility, the markets have to believe it and the financial authorities have to back it up. I would be grateful if I could at least get some agreement on that point.

Jeremy Purvis: I said that the First Minister quoted the FSA's statement, and he did. However, the statement did not talk about the shareholding or the exposure of HBOS. Let us not forget that HBOS had an exposure of £195 million—the difference between deposits and loans—compared with Lloyds TSB's exposure of £67 million. The FSA was careful with its language, as it always is. There was never any doubt that HBOS was a profitable bank, but there was considerable doubt about whether its business model was sound and whether the market had faith in it. We have heard not one criticism of the management of HBOS from our First Minister. I would have expected at least some comment from the Scottish Government about the business model of a company that the First Minister described this week as a Scottish icon.

It is a conceit to argue that the Scottish Government, through a Scottish central bank, would have provided an individual commercial organisation with £100 billion of liquidity that would not be available to any other financial institution that operates in Scotland. That is a conceit on many grounds, not least because, under SNP

policy—until last week—there were no plans for a Scottish central bank. Interestingly, even its previous policy statement has been criticised by Jim White, an economics professor from the United States, who said that an independent but pegged Scottish currency would deliver the worst of both worlds. He said:

"The risk of devaluation against sterling would hang over long-term contracts and investments in Scottish pounds, adding a premium to interest rates."

Is it the Government's position that there would be a separate Scottish bank on independence, or would the position in Scotland be consistent with the decisions of the Bank of England's monetary policy committee? There is confusion about that at a time when the sector in Scotland needs certainty and reassurance.

The Office of Fair Trading announced this week that it will shortly begin its analysis of the competitive framework within which the deal will be decided. The OFT has not received an indication from the UK Government of the waiver of the rules in the national interest. There has been no statement today or in the past week from the Scottish Government about whether it has been in contact with the OFT. There has been no indication of the correspondence between the Scottish Government and the UK Government on the context of its waiving of the rules in the national interest. Those two aspects are critical if we are properly to defend the Scottish interest.

A simple Scottish offer that sets a threshold so low that it is unlikely not to be met is not something that we expect from the Scottish Government in standing up for Scottish consumers and Scottish businesses.

16:39

Derek Brownlee (South of Scotland) (Con): This debate is unlike any other in which I have taken part in the past three years. We often have acrimonious debates on matters that are trivial in comparison with the future of HBOS. It would be wise for us to reflect on the fact that the decisions taken in boardrooms and markets have a much wider impact on our constituents than many of the decisions over which we exchange robust remarks week after week in the chamber.

Of course, that raises the question of what we can legitimately expect from any Government and, particularly, given the devolved competences, the Scottish Government. We should remember what the Government cannot do and that the balance of power does not lie with the Government in every respect. We need to focus on the practical measures that can be taken now and over the longer term to support the financial services sector, which, as many members have said, is of

huge importance to the Scottish economy, not just in Edinburgh, but throughout the country.

What can we expect of the Scottish Government? First, its most immediate task is the advocacy role, which the First Minister encapsulated in the phrase “the Scottish offer”. Secondly, we must not prejudice our economy’s long-term stability and Scotland’s attractiveness as a place to do business and to invest in. As others have made clear, that means making the right decisions on infrastructure and skills and—more important—ensuring that we preserve our reputation as a place for the financial sector to do business in.

Much has been made of the more routine side of politics over the past week and of the various claims and counter-claims about who said what to whom and when it was said. It is worth reaffirming that in the financial markets there is no such thing as independence at a Scottish level, at a UK level or even at a European level. If even the United States cannot withstand some of the forces at work in the global markets, we must be dealing with factors that are much greater than those that can simply be legislated for or hoped away.

However, such a situation also opens up opportunities that, in the past, Scottish companies have not been slow to seize and we must ensure that, in dealing with the fallout of the HBOS situation, we do not prejudice the ability of those companies—and of companies seeking to move to Scotland—to take up such opportunities.

As for the regulation of financial services, which has already been mentioned, the matter is, of course, reserved to Westminster and is coming more and more under the influence of both the European Union and the United States. I wonder, though, whether we should blankly charge down the line of greater regulation or whether it would be better to pause for a moment and reflect on the impact of greater transparency. We cannot regulate away risk; all that we can do is seek to give people the information that allows them to make their own assessment of whether risk is acceptable.

In that respect, I was struck by the valid points made in an article by John Kay, of the Council of Economic Advisers, that appeared last week in the *Financial Times*. In that article, Professor Kay says:

“I yearn for a world in which regulators would moderate the inherent instability of the financial system. But my yearning is tempered by modest expectations of what regulation can achieve.”

Realism

“acknowledges that public expectations are much higher and politicians will claim to respond to these ... But the politicians will fail. The next financial crisis will be different

in origin and the rules that will be introduced to close the doors of today’s empty stables will prove irrelevant.

It is easy to assert that the solution to any market failure is better regulation. If regulators were all-knowing and all-powerful; if they were wiser than the chief executives but willing to do the job for a fraction of the remuneration ... if they understood what was happening in the dealing rooms ... better ... then banking regulation could protect us against financial instability. But such a world does not exist. Market economies outperform planned economies not because business people are smarter than civil servants—sometimes they are, sometimes not. But no one has enough information or foresight to understand the changing environment, so the market’s messy processes of experiment and correction yield better results than a regulator’s analysis.”

That statement might be uncomfortable for those who have been or fear that they might be affected by the fallout of the HBOS situation, but it is a fair assessment of where we are.

We must never forget that the future of the Scottish financial sector is more than just the future of HBOS, Lloyds TSB or any of the other individual players, and it is critical that in focusing on what can be done over the next few months or years we do not prejudice that situation.

Many members have commented on HBOS’s business strategy. That strategy is a matter for shareholders and perhaps regulators. If I were qualified to talk about the appropriateness of the strategy that HBOS pursued, I would not be standing here today. We would be well advised to remember where the limits of political power lie and to focus on the practical steps that we can take to ensure that the fallout from the tumultuous events that we are discussing is minimised and opportunities are maximised.

16:45

Andy Kerr (East Kilbride) (Lab): First, I want to reflect on the importance of Scotland’s financial sector, as many members have done. Malcolm Chisholm, Sarah Boyack and other members have said that the sector accounts for one in 10 jobs in Scotland and that 100,000 people are employed in it—the same number are employed in its support services. The sector generates a huge part of our gross domestic product and is, of course, critical to Edinburgh’s economy and increasingly critical to Glasgow’s economy. Members have reflected on the fact that it is critical in other parts of the country, too, where other activities take place in call centres and other parts of organisations. The sector is therefore critical.

The impact of the takeover of HBOS goes far beyond the impact on jobs and its customers; it goes right into our economy. The First Minister, my colleague Iain Gray, Annabel Goldie and other members have spoken about the tentacles that reach out as a result of the role of HBOS. The

bank's work in the social housing market, the voluntary community, arts and sports and even in supporting flights from Edinburgh airport is a critical part of its impact.

It is interesting that several members have talked about boom and bust. I do not share their views, particularly those that were expressed by Ross Finnie and Jeremy Purvis. The underlying strength of our economy remains. The UK is a member of the G7 and the G8, and our economy remains one of the leading economies in the world. We have a current situation, but Labour values and visions and the delivery of a strong and stable economy over the years have not led us to where we have been in the past, when there was an unemployment figure of 3 million and interest rates of 15 per cent. We are clear that we are in a difficult and challenging global economic situation, but talk of boom and bust is wrong and people who engage in it talk down our economy.

I support proposals that were made in the First Minister's statement on protecting jobs, enhancing core decision-making functions in Scotland, mitigating and managing adverse impacts on our economy and society and maintaining Scotland's leading financial services position, but the UK Government has taken action and has continued to do so. For example, HBOS could have had access to the special liquidity scheme, which has been around since April. It could have had help far in excess of that which has been offered by the European Central Bank and the Federal Reserve system in America. The facility in the UK is for 12 months, and it can be extended over three years. The European scheme is a six-month scheme, and involves only €50 billion compared with the £100 billion that can be made available through the UK Government. The Fed scheme offers only three months' liquidity. Therefore, it is simply wrong to say that the UK Government has done nothing.

I smell a rat in the debate. We heard probably the blandest speech that we have ever heard from the First Minister, which suggests to me that he knows that his analysis is fundamentally wrong. It was soundbite Salmond at his worst; the mouth overruled the brain. He had a good line about spivs and speculators and thought that that might grab a headline, but, of course, the analysis by everybody else in Scotland is different. The First Minister talks about consensus. I want to reach consensus on such issues, but it is irresponsible of him to call for consensus while he undermines the correct analysis and does not recognise that there is more to the matter than spivs and speculators. Every other member recognises that.

The First Minister: Will the member give way?

Andy Kerr: Will the First Minister clarify a point about short selling? He introduced the term "naked

short selling" on Sunday for the first time, and he used it yesterday around the media, but he talked only about short selling for the whole of last week.

The First Minister: Yes, but I did not suggest that short sellers should be put to the fire; I would have been content simply with taking away their money.

Andy Kerr mentioned consensus. We had a meeting on Monday, which did a huge amount to rally Scottish opinion. Andy Kerr offered nothing but support at that meeting, but outside it he broke the consensus.

The Deputy Presiding Officer: Is this an intervention, First Minister?

The First Minister: Why did Andy Kerr break the consensus?

Andy Kerr: I explained my point. If the First Minister wants consensus, we should acknowledge the reality of the position in which we find ourselves. The First Minister has adopted a fantasy position.

The members of the First Minister's Council of Economic Advisers are coming out, man and woman, to disagree with him on the matter. The First Minister has the chance to summate in the debate, although perhaps Mr Swinney will do that—I am not sure. The First Minister should acknowledge that he got it wrong. He should admit that to the Parliament and then we can move on in a consensual manner. If we can have consensus only on the First Minister's terms, that is unacceptable to the rest of the Parliament.

The First Minister tried to say to me across the chamber that I have somehow accused Sir George Mathewson of being a spiv. I have not. I am clear that, in the First Minister's description of what happened to HBOS, he described Sir George Mathewson as a spiv. In response to the First Minister, Sir George Mathewson said:

"If one's ignorant, one could take that tone."

I suggest that he was talking about the First Minister.

As Derek Brownlee, Wendy Alexander and others have pointed out, the First Minister has said that, in an independent Scotland, he would have advanced £100 billion, which is three times the Scottish budget. We are not sure whether there would be a central Scottish bank, so would we rely on the Bank of England to do that? An arrangement was available to HBOS, but it did not choose to take it up. Of course, the European Central Bank offers a scheme, but it is nothing in comparison with the scheme that the UK made available. Funds were available, but there was no request for a line of credit. The chancellor has made that clear. He went on to say:

"frankly, things were way beyond that ... They needed a permanent commercial resolution and that is what we achieved".

However, that flies in the face of what the First Minister's SNP website says. It states:

"I'd have acted to save HBOS".

He would have jumped into the phone box, although, sadly, he might have come out naked, rather than dressed in a Superman outfit, because, as he knows, he would have no tools available to him. The strength of the work on HBOS and Lloyds TSB is the fact that we are in the union and part of the UK. We do not have a foreign bank taking over HBOS in Scotland, but a partnership of two UK banks, which would not be an option in the situation that the First Minister set out.

Margo MacDonald: Will the member take an intervention?

Andy Kerr: Sorry, but I do not have time.

The First Minister has said that corporation tax is the key. He says that businesses will come to Scotland and corporation tax will be the solution to all our problems. However, he ignores the fact that the effects of his local income tax would far outweigh the benefits of any corporation tax cut that he cared to offer. Also, he does not tell us what services throughout Scotland would be cut as a result of his corporation tax cut. Wendy Alexander asked what regulations would have prevented the situation from arising in an independent Scotland. What Scottish regulations would have made a difference? How would independence have stopped the international speculators? Would it have hindered the Lloyds TSB merger plans? The First Minister has a responsibility to answer those questions.

If the First Minister wants to ensure that we proceed with consensus, he must recognise that the consensus is not that the UK Government stood idly by. With all due respect, that is no way to build consensus. To do so, we must recognise the role of the UK Government, in partnership with the Scottish Government, in ensuring that we do the right thing. That means protecting Scottish jobs and ensuring that headquarters functions are retained and that we make progress in an orderly and efficient manner for Scotland. I say to the First Minister that we do not need emotional nationalism; we need financial rationality. We do not need soundbite Salmond; we must ensure that we serve Scotland and do not use the situation as the First Minister has done. As I have said before, he is the true short seller of Scotland.

16:53

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Mr Kerr mapped out the need for consensus. However, I was somewhat confused by the tone and content of his speech. I was not sure whether it was a model. If Mr Kerr will forgive me on this one occasion, perhaps I will deliver a speech that he might listen to, as the crafting of consensus. I have tried previously to secure consensus with Mr Kerr, but he spurned me during the budget debate, with awful consequences. However, I shall try a bit harder today.

Derek Brownlee made the fair point that we must be clear about what is expected from the Scottish Government. I agree with that. It is also important that we are clear about what the public expect from the Scottish Government into the bargain. I hope that we can secure co-operation on that across the political spectrum. We had ample evidence of co-operation at the excellent event on Monday that was co-hosted by the First Minister and the Scottish Council for Development and Industry. We need agreement that some central features must be tackled in the next few weeks to ensure that we protect the Scottish interest. Frankly, that is what members of the public will expect the Scottish Government and the Scottish Parliament to deliver on their behalf.

Jeremy Purvis: The cabinet secretary might have seen, on 18 September, a press release from the Office of Fair Trading that said that the OFT

"expects to begin consideration of the competition effects of the proposed merger shortly, and will do this through established procedures, taking full account of information from the merging parties and others."

In the six days since that press release was published, has the Scottish Government made any contact with the OFT?

John Swinney: The Scottish Government will take forward a number of initiatives arising out of the discussions that we had with the Financial Services Advisory Board at the meeting that the First Minister and I attended yesterday. Among those initiatives will be discussions with the UK Government and others about some of the regulatory issues that arise out of our experience. If it is appropriate for the Government to make a submission to the OFT inquiry, we will, of course, do that. That submission will be based on and informed by the discussions that we will have with financial services companies in that respect.

Jeremy Purvis *rose*—

John Swinney: If Mr Purvis will forgive me, I will continue to respond to points that were made in the debate.

I want to concentrate on some of the expectations that people quite rightly have of what the Government and Parliament should deliver. We are here to protect employment in Scotland. I assure Margo MacDonald that we are here to protect, promote and enhance decision making of substance in Scotland about the business choices that are made by the group that emerges from the Lloyds TSB-HBOS transaction. As part of that, we will make a vigorous case to Lloyds TSB about the strength and effectiveness of the Scottish financial services sector.

Margaret Smith (Edinburgh West) (LD): As an Edinburgh member, I am obviously concerned about my constituents' jobs.

In his statement, the First Minister said that the management had made it clear that it would move quickly on the details of the merger. However, my understanding from HBOS is that the details of the restructuring, which will have an impact on the numbers and types of jobs that will be affected, will not be available before the vote on the merger. What does the Government mean when it talks about moving quickly?

John Swinney: As Margaret Smith is aware, I am not the person who is writing the prospectus for the transaction. Along with the First Minister, I will be writing the Government's explanation of the strengths of the financial services sector and why there is a compelling case for significant decision making about the activities of the group to be anchored in Scotland. That case is based on several hundred years of financial strength that has been built up by a number of a key institutions, of which the Bank of Scotland has been one and the Royal Bank of Scotland has been another, along with Standard Life and various other companies that I could mention. Further, David Whitton mentioned the situation with Norwich Union in Bishopbriggs, and Roseanna Cunningham mentioned the expansion of Norwich Union's work in the city of Perth. There are many strengths in the Scottish financial services sector.

Mr Finnie and Mr Scott might be correct that there should be a Treasury inquiry, run jointly with the Scottish Parliament's Economy, Energy and Tourism Committee, into the conduct of the HBOS management. However, for heaven's sake, let us not undermine the message about the strength and the quality of the financial services sector by behaving in an unwise fashion.

Sarah Boyack asked what the Government is doing with regard to financial services skills. Out of the global financial services week that the Government hosted jointly with Scottish Financial Enterprise and the Financial Services Advisory Board in May, there emerged an initiative, to be led by David Thorburn, the chief officer of

Clydesdale Bank in Scotland and the chairman of the Confederation of British Industry Scotland, to create a better match between the skills demand of financial services companies in Scotland and the provision that is made by our universities and further education colleges. In the past seven days, the Cabinet Secretary for Education and Lifelong Learning has had discussions with the Scottish Further and Higher Education Funding Council and Skills Development Scotland to ensure that that alignment is absolute, so that our financial services companies are assured that, as part of the compelling proposition that Scotland represents in terms of financial services, we have those attributes available at all times.

I wish to address some of the other points that were made in the debate about the circumstances that led to this particular transaction. A number of significant issues need to be addressed. If there was not a problem with short selling, why on earth did the Financial Services Authority act as it did last Thursday evening? On Thursday evening, the chief officer of the FSA said:

"the current extreme circumstances have given rise to disorderly markets".

Members have talked about the special liquidity scheme that the Bank of England and the United Kingdom Government facilitated. The governor of the Bank of England went to the Treasury Select Committee on 11 September and said that the scheme would end on 21 October. Who was sleepwalking when the scheme was not extended at that time? Members must understand that, at a critical time when institutions were under pressure, swifter action could have resulted in a different outcome.

It is essential that this Parliament demonstrates what we were sent here to do, which is to act as a forum that promotes in every respect the best interests of the people of Scotland. I am absolutely confident that we have a strong and robust financial services sector, in which I had the privilege to work.

The purpose of this Government is to increase sustainable economic growth. To do that, we will support the financial services sector in its efforts. In doing that, we will represent the strength of consensus that emerged from the discussions that we had on Monday, ranging across all sectors of Scottish society, and put to Lloyds TSB the compelling case for Scotland to be the centre of decision making for this new venture. We will put that proposition with enthusiasm to Lloyds TSB.

Business Motions

17:00

The Presiding Officer (Alex Fergusson): The next item of business is consideration of business motion S3M-2585, in the name of Bruce Crawford, on behalf of the Parliamentary Bureau, setting out a business programme.

Motion moved,

That the Parliament agrees the following programme of business—

Wednesday 1 October 2008

2.15 pm Time for Reflection

followed by Parliamentary Bureau Motions

followed by Scottish Parliamentary Corporate Body Question Time

followed by Ministerial Statement: Scottish Government Response to the Report of the Committee of Inquiry on Crofting

followed by Public Petitions Committee Debate: 3rd Report 2008: Availability on the NHS of cancer treatment drugs

followed by Business Motion

followed by Parliamentary Bureau Motions

5.00 pm Decision Time

followed by Members' Business

Thursday 2 October 2008

9.15 am Parliamentary Bureau Motions

followed by Scottish Conservative and Unionist Party Business

11.40 am General Question Time

12 noon First Minister's Question Time

2.15 pm Themed Question Time
Justice and Law Officers;
Rural Affairs and the Environment

2.55 pm Scottish Government Debate:
Scudamore Report into Foot and Mouth
Disease

followed by Parliamentary Bureau Motions

5.00 pm Decision Time

followed by Members' Business

Wednesday 8 October 2008

2.30 pm Time for Reflection

followed by Parliamentary Bureau Motions

followed by Scottish Government Business

followed by Business Motion

followed by Parliamentary Bureau Motions

5.00 pm Decision Time

followed by Members' Business

Thursday 9 October 2008

9.15 am Parliamentary Bureau Motions

followed by Scottish Government Business

11.40 am General Question Time

12 noon First Minister's Question Time

2.15 pm Themed Question Time
Finance and Sustainable Growth

2.55 pm Stage 3 Proceedings: Scottish Register
of Tartans Bill

followed by Parliamentary Bureau Motions

5.00 pm Decision Time

followed by Members' Business.—[Bruce Crawford.]

Motion agreed to.

The Presiding Officer: The next item of business is consideration of business motion S3M-2586, in the name of Bruce Crawford, on behalf of the Parliamentary Bureau, setting out a stage 1 timetable for the Health Boards (Membership and Elections) (Scotland) Bill.

Motion moved,

That the Parliament agrees that consideration of the Health Boards (Membership and Elections) (Scotland) Bill at Stage 1 be completed by 30 January 2009.—[Bruce Crawford.]

Motion agreed to.

Parliamentary Bureau Motions

17:03

The Presiding Officer (Alex Fergusson): The next item of business is consideration of two Parliamentary Bureau motions. I invite Bruce Crawford to move motions S3M-2587 and S3M-2588, on the approval of Scottish statutory instruments.

Motions moved,

That the Parliament agrees that the draft Legal Profession and Legal Aid (Scotland) Act 2007 (Transitional, Savings and Consequential Provisions) Order 2008 be approved.

That the Parliament agrees that the draft Mental Health (Absconding patients from other jurisdictions) (Scotland) Regulations 2008 be approved.—[*Bruce Crawford.*]

Decision Time

17:03

The Presiding Officer (Alex Fergusson): There are two questions to be put as a result of today's business. The first question is, that motion S3M-2587, in the name of Bruce Crawford, on approval of a Scottish statutory instrument, be agreed to.

Motion agreed to.

That the Parliament agrees that the draft Legal Profession and Legal Aid (Scotland) Act 2007 (Transitional, Savings and Consequential Provisions) Order 2008 be approved.

The Presiding Officer: The second question is, that motion S3M-2588, in the name of Bruce Crawford, on approval of an SSI, be agreed to.

Motion agreed to.

That the Parliament agrees that the draft Mental Health (Absconding patients from other jurisdictions) (Scotland) Regulations 2008 be approved.

Veterans Support

The Deputy Presiding Officer (Alasdair Morgan): The final item of business is a members' business debate on motion S3M-1861, in the name of Keith Brown, on support for veterans in Scotland. The debate will be concluded without any question being put.

Motion debated,

That the Parliament recognises that ex-service personnel in Ochil and throughout Scotland often suffer particular problems in areas such as health, employment, housing and pensions; welcomes the recent Scottish Government announcements of support for the Houses for Heroes Campaign, run by the Scottish Veterans' Garden City Association, and the Scottish Veterans' Fund, run in association with Veterans Scotland; believes that the commitment to assistance from a Scottish perspective is particularly important; further believes that the Parliament should be at the centre of the developing debate about how best to provide appropriate support to ex-service personnel, and welcomes any initiatives by the Scottish Government to continue to engage with the range of organisations involved in supporting ex-service personnel and addressing the challenges that they face.

17:04

Keith Brown (Ochil) (SNP): I thank all the members who signed the motion, which allowed the debate to take place. The debate is important for a large swathe of Scotland's population. For propriety, I declare an interest. Veterans Scotland's definition of a veteran is anybody who has served in the United Kingdom armed forces—regular or reserve—and, for a short period a long time ago, I served with the Royal Marines.

I would like to say how many are in the veterans community in Scotland, but all that anyone has to go on is estimates. In 2005, research by the Royal British Legion estimated that just over 1 million were in the ex-service community in Scotland. Half those people are former service personnel and the rest are their families. In both categories, most members of the community are at the older end of the scale—three quarters are over 55 and 60 per cent are over 65. Most of our veterans are senior citizens, but tens of thousands of ex-service personnel who are in their 20s and 30s also face special challenges, not to mention the challenges that their partners and children face.

This is a members' business debate, so I do not want it to become a partisan session in which the Scottish Government is congratulated on excellent work—perish the thought—but it is important to recognise at the outset that the Scottish Government has gone out of its way to examine the problems that veterans encounter. The Parliament is not responsible for our citizens when they are in uniform, but when they leave service we are responsible for supporting them in their

health, their housing and their chances for learning and training. I therefore welcome the Scottish Government's initiatives in that regard. From my contact with the charities that work with veterans, I know that they appreciate the Scottish Government's intent and genuine effort. I am sure that the minister will be all too happy to detail the initiatives.

The growing concern in the Scottish Government and in wider society about the issues that veterans face is mirrored by greater awareness of those problems. Cross-party effort in the Parliament has created the formal cross-party group on supporting veterans. I am delighted to be a vice-convenor of that group. Its convenor is Jeremy Purvis and it has Labour and Conservative vice-convenors.

There could be many reasons for the growing awareness of veterans issues; I will suggest one. Yesterday, *The Herald* reported that 1,500 Scots are preparing to start a tour of Afghanistan next year. The legacy of fighting protracted wars in Iraq and Afghanistan is bringing home the reality that we as a society need to support the veterans who return from those conflicts. This week, 150 Royal Highland Fusiliers returned from Afghanistan.

People join the armed forces for many reasons and—as I can testify—often at a young age. They also take on an obligation that is required by few other paths in life—to put life and limb on the line. I disagree with the Iraq war, but I reject the idea that—whether from malice or ignorance—we should condemn those whom presidents and prime ministers send to fight such wars.

In America, where veterans have historically been held in higher and more general regard than is the case here, it is well recognised that the burden of fighting a war and surviving its aftermath always falls most heavily on those who start with the least. I learned recently at a veterans day film festival in Stirling that the number of suicides among Argentinean veterans of the Falklands war is nearly the same as the number of Argentinean deaths in combat in that war. That statistic is appalling and I worry about what the equivalent figure might be for forces from Scotland and the UK.

Even without active service in conflict, the military lifestyle is the furthest from a regular 9-to-5 job that can be imagined. It is intense and at all times close and personal. It is no pun to say that it is regimented to the last detail. Moving from that to a lifestyle in which the first stop is most likely to be a college or a job centre is a radical change that can affect a person profoundly. Veterans Scotland brings together 31 organisations and charities whose work is dedicated to helping with all aspects of that transition for many years—sometimes even a lifetime—after. Organisations

deal with specific services, types of welfare and forms of recruitment. The problems in practice are no less varied. Listing all the issues that face veterans in those circumstances would be impossible in an hour, so I will not try to list them all.

I mentioned the mental health of the ex-service community. While national attention focuses on alcohol abuse, we should consider whether veterans have a particularly difficult relationship with alcohol and substance abuse, and take that into special consideration in our national strategies.

There is also a widespread problem in housing. Although the difficulties that some veterans face are shared by the mainstream, other veterans need adapted housing and specialist help or would benefit from being part of a certain community. Recently, I suggested that veterans housing charities should have first priority, or more favourable terms, when the Ministry of Defence sells off land or property. The idea is interesting, and the Scottish Government could explore it further with Whitehall.

I am delighted that the cross-party group has managed to achieve an undertaking from the MOD that it will attend all our meetings. The issues are difficult to address if the Scottish Government or Westminster try to address them alone. Collaboration is important in all of this.

There are, of course, many other possibilities. I recommend that all members read Poppyscotland's "Meeting the Need: A report into addressing the needs of Veterans living in Scotland". I am pleased that the Cabinet Secretary for Justice has taken forward the concerns that I and others have raised on the location of fatal accident inquiries that result from the deaths overseas of Scottish and Scotland-based personnel. As we have heard, it can be traumatic for families, who wait years for an FAI to take place, not only to have to travel down south but to remain there for the duration of what can be protracted investigations. Furthermore, an FAI can make families relive events that they may have been trying to forget.

Much is being done, but much remains to be done. I am sure that other members will add their personal experience and that of their constituents and organisational contacts. I am delighted to have secured the debate and that it has given the chamber the opportunity to debate the subject.

Whatever else Holyrood does, Scots who have fought in wars or worn a uniform, and their partners and families, deserve nothing less than to be centre stage in our considerations.

17:11

Mary Mulligan (Linlithgow) (Lab): I congratulate Keith Brown on securing the debate.

We are all aware—as are our families, friends and neighbours—of service personnel who have returned to our communities. Many of us will be aware of the challenges that service personnel face on their return to so-called civvy street. On a practical level, as Keith Brown said, it must be difficult for service personnel to adjust from having almost every action directed to having to make all their own decisions—and in constantly changing circumstances. Although I will concentrate on housing, I acknowledge that veterans may need to access health, training and other services.

My first experience of service personnel returning to their communities was when two ex-Army men contacted me when I was an Edinburgh councillor. One was very organised: he had put his name on the housing waiting list while he was in the Army. Given that he had accrued a good number of points, he and his family were duly offered a suitable property. The second man was not so well informed: he had not put his name on the list and he did not know the procedures. A lot of work went into finding him suitable accommodation.

Housing allocation policies have changed since then, and local authorities may have different practices, but those examples raise a number of issues, the first of which relates to the advice that serving service personnel are given on their prospects. What advice does the Scottish Government offer local authorities on rehousing service personnel?

Some service personnel will return with straightforward housing needs, but a significant number will return with physical or mental disabilities. As elected members, none of us can be unaware of the high demand for adapted housing in the rented and owner-occupied sectors. What is the Scottish Government doing to make finance for adaptations available?

Veterans with mental health needs face uncertainty about the additional support that is available to them. Previously, such services were provided through the supporting people funding stream. As we all know, that funding stream is no longer available; the money is now part of non-ring-fenced council settlements. What reassurance can the minister give the chamber that such services are being maintained in all local authority areas?

Responsibility for veterans rests primarily with the Westminster Government, but responsibility for many services that veterans will need to access are devolved, so it is appropriate for members of the Scottish Parliament to question the Scottish

Government on what it can do to assist veterans when they leave the services.

The main housing challenge for many veterans is accessing housing in competition with others in our communities who are seeking suitable housing, whether adapted or otherwise. Will the minister say how increased housing supply throughout Scotland can be provided to ensure that it meets demand, particularly that of those who leave our services? Will he ensure that adaptations and support are available to those who need them?

The needs of veterans and their families for public services cannot be divorced from those of the rest of the community. The minister needs to answer the big-picture questions if we are to address the varied needs of veterans.

I see that I have run out of time, so I will leave it at that.

17:16

Murdo Fraser (Mid Scotland and Fife) (Con): I commend Keith Brown for the motion and congratulate him on securing this important members' business debate. As he said, as a veteran of the Falklands conflict he has a personal interest in the matter. Not having served in the armed forces, I have a great deal of admiration for those who have.

I commend Veterans Scotland for its work promoting issues regarding Scotland's veterans. It acts as a co-ordinating voice for the benefit of the ex-service community in Scotland, and it has been instrumental in making the Scottish Government listen and learn about the fate of our veterans. I, too, put on record my thanks to all the local and voluntary organisations that provide daily support to veterans who need or ask for assistance.

As Keith Brown said, there are about 500,000 veterans in Scotland. They are courageous and dignified individuals who have served our country with pride. They either fought for our country or were ready to give their life to protect the United Kingdom.

When they talk about veterans, many people have an image of elderly men and women who fought in the great war or world war two. The reality, of course, is that many young men and women who served in Iraq and in other recent conflicts are also now veterans. That fact was brought home to me recently when I spent a day quad biking in Strathbraan in Perthshire with veterans who were holidaying at the British Limbless Ex-Service Men's Association home in Crieff. The sad fact is that most of them were younger than me—and, despite their disabilities, far better quad bikers.

We have already heard about the need to provide our veterans with appropriate health care, housing and pensions. The Conservatives strongly support those calls, and we believe that veterans who require assistance should receive it.

The sad fact is that for decades, if not centuries, veterans have not been well enough treated by this country. There is nothing new in that. A couple of years ago, while visiting South Africa, I visited Rorke's Drift in Natal—the scene of that famous battle which was part of the Zulu wars in 1879. Rorke's Drift has entered history not just because of the famous Michael Caine film but, more significantly, because on that day 11 Victoria crosses were won by defenders of the mission station—the highest number won in any single engagement in the history of the medal.

The untold story of Rorke's Drift is what happened to the survivors of the battle. As we learned when we visited, despite their being feted as heroes, there was little practical support for them when they returned home. Undoubtedly and unsurprisingly, many suffered from what would now be recognised as post-traumatic stress disorder: a number ended up committing suicide, others died in poverty or in mental institutions. It is a sorry tale that sits at odds with the popular perception of war heroes.

There are many issues that can be explored. I fear that the time given for a members' business debate will not allow us to cover them all, but I will refer to one aspect that is mentioned in Keith Brown's motion: the houses for heroes campaign run by the Scottish Veterans Garden City Association. My former colleague James Douglas-Hamilton plays a role in that association, which provides affordable housing for ex-members of Her Majesty's forces, the merchant navy, the police and the fire service who have suffered some form of disability or chronic illness during their service or since leaving. Its houses for heroes campaign is one of the most worthwhile campaigns that is being undertaken in Scotland, and I hope that its appeal for 60 more houses will be successful. I would be interested to hear from the minister the latest the Scottish Government has to say on the campaign and how it intends to support it.

All Scotland's ex-servicemen and women should be given the level of care that reflects their great service and commitment in protecting our country. Those courageous men and women stood up and protected us; it is now our duty to stand up and help them.

17:20

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I join others in commending

Keith Brown for securing the debate, which is about precisely the type of issue that we should debate in members' business. It is a credit to Mr Brown that he has secured time for it and is obviously committed to the issue.

All MSPs receive casework and it is often hard to consider whether one group of constituents should receive special treatment or special consideration over others. However, we must acknowledge that we have asked considerably more of our servicemen and women than their salaries compensate them for. Parliament and the Scottish Government must recognise the need to change the way we support our veterans. Regardless of politics, young men and women have gone into conflict and areas of danger on their country's behalf and, as Murdo Fraser said, we have let them down over the years.

It is welcome that the minister launched a specific consultation to focus attention within Government on support for veterans. No doubt he will outline that work to us. To be fair, it is similar to work that was carried out by the UK Government. It is worth acknowledging that, north and south of the border, there is better focus on the support that needs to be provided.

I have a constituency interest in the issue, in that constituents of mine from the Borders will be deployed. The Royal Highland Fusiliers are now barracked permanently at Glencorse in my constituency and constituents of mine from there have been deployed. Communities that I represent have suffered losses, which have been keenly felt.

Increasingly, there are young men and women who require support for more complex needs than those for which it was previously perceived veterans need support. I was struck by the information that, in 2006, Combat Stress had more than 400 active clients in Scotland, of whom 35 per cent were divorced or separated, 65 per cent were unemployed and 66 per cent were between the ages of 30 and 60. Although Combat Stress supports many second world war veterans, the vast majority of its clients have served in more modern conflicts. Recent data indicate that the average client is aged 45, has served 12 years in the services and left the military 14 years previously.

We must build future-proof policies for veterans' future needs in Scotland. Veterans Scotland and Poppyscotland estimate that, in 2025, there will be around 180,000 veterans and more than 200,000 dependants of veterans in Scotland. Therefore, decisions that Parliament and Government take now for our public services are important.

That is one of the reasons for the establishment of a cross-party group on supporting veterans in Scotland, of which I am delighted to be a member.

Its inaugural meeting will be on Tuesday, and I am very pleased that the Minister for Communities and Sport will be at the meeting to outline the Scottish Government's work. With colleagues in Parliament, we will discuss our forward work programme, which will focus on health and wellbeing and on national health service priority treatments for veterans. We will also consider drugs and alcohol services for our veterans and how to bring additional focus to training, skills and employment opportunities, as well as housing needs. I hope that the cross-party group will act as a liaison, too, for local organisations to give feedback to us as MSPs about what they decide are their priorities. That will be the start of giving due recognition to the cross-party support that we must provide. Again, I commend Keith Brown for allowing us to focus on this issue.

17:25

Kenneth Gibson (Cunninghame North) (SNP):

I, too, commend my colleague Keith Brown for securing the debate. I am pleased about the formation of a cross-party group on veterans. I, too, will be a member and will attend the inaugural meeting next week.

Scotland has a long and proud military history, and the names of Scotland's historic regiments are known around the world: our soldiers, sailors, airmen and airwomen have served with great distinction and honour. Over many centuries a disproportionate number of Scots have served in the British armed forces. However, at a time when UK armed forces are engaged in combat operations in Iraq and Afghanistan, and are deployed in various peace missions around the globe from Serbia to the Falklands, there is a need to look again at the services that are provided for our personnel when they are stationed in Scotland and are accessing public services for which the Scottish Government and local authorities have responsibility.

When brave men and women leave the armed forces and settle in Scotland, they should be able to access services that are adaptable and responsive and that meet their needs. The health and wellbeing of all Scotland's people are, of course, a priority. However, for certain groups and individuals in society, there are significant barriers to achieving that. For some people who leave the armed forces, health issues can take many years to become manifest and, as has been touched on, may not be obviously linked to their period of service.

I am pleased that the Scottish Government extended its priority treatment scheme to all veterans, including reservists, as of 29 February this year, which means that any veteran who needs treatment as a consequence of his or her

service is entitled, based on clinical need, to priority treatment in the NHS. That goes beyond what is available in England, where reservists are not entitled to priority treatment. A partnership of the MOD, Lothian NHS Board and veterans organisations, including Combat Stress, is undertaking a pilot project to provide services for veterans who experience mental ill health.

Service personnel and their families should retain their existing position on the pathway of care when they are obliged to move in Scotland. In addition, we must ensure that veterans who lose limbs on active service receive from NHS Scotland state-of-the-art prosthetics similar to those that are issued by the MOD's defence medical services.

To ensure that the armed forces are given fair treatment, the Scottish Government will give them priority access, alongside tenants of social rented housing, to shared equity schemes under the low-cost initiative for first-time buyers—LIFT. That measure will assist in retention of serving forces personnel by allowing them to get a foot on the housing ladder, where that is sustainable for them. People who leave the armed forces can be vulnerable to homelessness, particularly when they leave in a relatively unplanned way or have little prior experience of being responsible for their own home. I am pleased that Scottish homelessness legislation ensures that applicants who are vulnerable because they have left the forces will be treated as having a priority need for accommodation.

Current arrangements in Scotland for assessing entitlement for grants for adaptations already disregard all war pensions and associated mobility supplements when testing the resources of grant applicants. However, account is taken of income from savings that could include compensation in the form of lump-sum payments, although the payments themselves would be disregarded. The Scottish Government is consulting on proposals to abolish the test of resources and award a grant at a minimum rate of 80 per cent, rising to 100 per cent for applicants in receipt of particular income replacement benefits. I welcome that. Local authorities will have discretion to increase the grant award to above 80 per cent for applicants who are not entitled to 100 per cent. Service personnel whose sacrifice has resulted in an injury need not only sympathy but real support, and they have an on-going requirement for adapted housing. Further work must be done with Scottish social landlords to ensure the allocation of such housing to veterans.

I believe that the provision of concessionary bus travel for injured veterans is vital. As previous speakers pointed out, not all veterans are older people. I am pleased that the forthcoming review of the Scotland-wide free bus travel scheme for

older and disabled people will consider extending the scheme to veterans. I look forward to seeing the Scottish Government's response to that consultation.

There may be greater benefit from closer working between local armed forces personnel and local authorities in Scotland. I believe that they have many mutual interests. Perhaps some work can be done in that area through community planning partnerships, as part of the historic concordat.

We need a coherent package of support for our armed forces personnel and veterans. I look forward to the Scottish Government delivering that, with co-operation from all parties across the chamber.

17:29

Trish Godman (West Renfrewshire) (Lab): I, too, congratulate Keith Brown on securing the debate, which, like others, I am pleased to support. I also look forward to attending the first meeting of the cross-party group.

On the critical issue of the care and rehabilitation of veterans, I find myself in sympathy with the hard-hitting and angry words that were offered by the Democratic senator, Jim Webb, in his congressional response to President Bush's state of the union address last year. Senator Webb, who is a Vietnam veteran, said:

"Like so many other Americans, today and throughout our history, we serve and have served, not for political reasons, but because we love our country. On the political issues—those matters of war and peace, and in some cases of life and death—we trusted the judgment of our national leaders. We hoped that they would be right, that they would measure with accuracy the value of our lives against the enormity of the national interest that might call upon us to go into harm's way.

We owed them our loyalty, as Americans, and we gave it. But they owed us—sound judgment, clear thinking, concern for our welfare, a guarantee that the threat to our country was equal to the price we might be called upon to pay in defending it."

That statement would resonate deeply with our veterans here in Scotland and elsewhere in the United Kingdom.

The trust that is put in our political leaders by our armed forces must be repaid by an overriding concern for the welfare of our servicemen and servicewomen. If they return to our shores wounded or distressed in other ways, it is our bounden duty to provide them with the very best medical treatment, care and rehabilitation. They must not be forgotten once they leave the hospital ward. They must be given every assistance to adapt comprehensively to life in their communities.

In fairness, the Scottish and UK Governments now show a greater willingness to honour the state's responsibility for its armed forces than was the case hitherto. Down the years, our veterans were simply disregarded. I hope that that will never be the case again.

Erskine home is in my constituency, and I visit it whenever I can. Over the past nine years, I have seen a difference in the age of the veterans—a point that Keith Brown mentioned. I had always thought of a veteran as an older person, but that is no longer the case because of the various conflicts that take place around the world. At the moment, the youngest veteran in Erskine home is 24 years old.

What is it like for families who see sons, daughters, partners, sisters, brothers, mothers and fathers return home broken not only in limb but in mind? What is it like when they end up in Erskine care never to be the same person again? Why should they need to come to me, as their local elected representative, for support and help when, for example, they need adaptations in their home—as Mary Mulligan mentioned—or help with work? Why are those things not provided automatically?

In the past, when men—usually men—came home from conflicts and were what was described as “not quite right”, we did not have the medical knowledge about mental health problems that we have now. Today, we have the knowledge, so why do the services not swing immediately into action?

Services for which the Scottish Parliament has responsibility include the national health service, the whole gamut of local authority provision and the police and prison services. Are those services actively involved in helping to provide, for example, appropriate employment? Is anybody talking to those people? If not, why not? I look forward to having such discussions with the representatives on the cross-party group.

The Scottish Government's decision to dedicate £127,000 in funding over the next three years for projects and organisations that work directly with war veterans and their families will certainly ease the burden. As Murdo Fraser said, the houses for heroes campaign plans to raise £6 million to provide 60 wheelchair-friendly houses. Let me put in a plea for wheelchairs that are fit for purpose. As I pointed out in a previous members' business debate, the design of wheelchairs is sometimes 30 years old, and wheelchairs must be fit for purpose.

I cannot help thinking that the Scottish Government could do more. For example, monetary support is needed for a 45 per cent expansion in the number of Erskine beds to meet growing demand from across Scotland. Providing such support would be a good start, given that

Erskine must raise nearly £3 million per year. The help for heroes rugby match—on which I lodged a motion that many members signed—was held last week. I watched the match, which was very emotional. Some 50,000 people attended the event, and it made more than £1 million. However, I was very angry that I had to lodge that motion in the first place.

As Senator Webb said, we owe our veterans

“sound judgment, clear thinking, and concern for”

their

“welfare”.

I would add that we owe them automatic help and support that is free at the point of need when they come home.

17:35

The Minister for Communities and Sport (Stewart Maxwell): Presiding Officer, it is an honour to offer the Government's response to the debate. I thank Keith Brown for lodging the motion and congratulate him on securing the debate. I am also grateful to other members for their insightful and informative contributions.

It is important to me, as minister with responsibility for veterans issues, that the Scottish Government does all that it practicably can to ensure the welfare and wellbeing of our veterans. I am only too aware of the issues that can befall some of our ex-service personnel, of the complex and sometimes unique difficulties that they can face as a result of their service, and of the exceptional pressures that military life can place on them.

Members will be aware that, for the vast majority of personnel leaving the armed forces, the transition back to civilian life is smooth and trouble-free. For a minority, however, the journey back to civvy street and reintegration with civic society is far from easy. A range of obstacles and barriers in areas as diverse as housing, health, social care, education, employability and social inclusion can conspire to deprive those men and women of opportunities to lead fulfilling and successful lives outside the services.

Whatever the barrier or cause, it is for the Government to do all that it can, in partnership with the Ministry of Defence and the wider veterans community, to meet the needs and aspirations of our ex-service personnel and their families. That is why we have introduced a series of measures and initiatives that are aimed directly at benefiting veterans living in Scotland. Perhaps the most fundamental of those was the publication in June of our commitments paper alongside and complementary to the MOD's command paper, both of which set out what the Government has

done for veterans and what we intend to do in the future in areas such as housing, health, education and skills, as well as in transport, support for families and wider access to public services. For the first time, the Scottish Government has set out a programme for assisting our veterans across Scotland and refocusing our efforts to combat the complex and varied issues that they face.

We have already made a start in fulfilling our obligations. For example, priority treatment has been extended to all veterans with a condition associated with military service on the basis of clinical need. Moreover, we will start the pilot of a new approach to community-based mental health services for veterans along with NHS Lothian and other partners in November. Other proposals in the commitments paper include provision by NHS Scotland of state-of-the-art prosthetics to injured veterans, to a standard similar to that provided by the defence medical services; priority access for service families to shared equity schemes to make house purchases more affordable, which we announced in June; improved access to higher education for service leavers with six years' service; and continuous automatic entitlement to the blue badge scheme for severely disabled veterans.

That is by no means an exhaustive list, but I give Parliament an unequivocal assurance that the Scottish Government is fully committed to fulfilling its obligations, and we will work strenuously with the MOD and veterans charities to ensure the implementation that most benefits our veterans. This morning, I met the heads of the armed forces in Scotland to discuss how we can work together to successfully implement the proposals.

The Government recognises that some of our veterans have to deal with the sometimes devastating physical effects and psychological impact of combat. I take the opportunity, therefore, to extend my appreciation to the many charities that tackle those issues head-on, such as Combat Stress, Erskine and Poppyscotland, which, along with a raft of other charities the length and breadth of Scotland, do exceptional work. Much of that work is unheralded, but it is nonetheless appreciated by those who benefit.

Of course, more can and must be done to deliver for veterans. In many respects, the veterans organisations are the best people to undertake the work that is needed. However, it would be wrong for the Scottish Government to sit back and expect those charities and organisations to shoulder the burden on their own.

Until now, the Scottish Government has not provided dedicated funding for veterans issues in Scotland. However, with my announcement in May of our intention to introduce a Scottish veterans fund, we have rectified that shameful anomaly.

The fund will make almost £0.25 million available to veterans groups and charities over the next three years, and will be aimed at projects that deliver new or innovative approaches to veterans issues, or that seek to develop areas and activities that are not currently funded. We expect to receive the first applications to the fund by the end of November.

Furthermore, to ensure that the needs of veterans are reflected in future policy development, Dr Kevin Woods, the director general of health, has been appointed as the Scottish Government's armed forces and veterans advocate. Dr Woods will also join the MOD external reference group that is overseeing implementation of the command paper. Furthermore, the Scottish Government has now established a dedicated team within its social inclusion division to deal with armed forces and veterans issues, and to take forward our commitments and obligations. Officials are also examining the opportunity to set up an armed forces and veterans forum, which would be chaired by me, to provide for more direct engagement between Government and stakeholders.

The Government does not presume to have all the answers to the issues that our veterans face, but we are determined to work with colleagues and stakeholders to make a tangible and meaningful difference to their lives. I do not offer quick-fix solutions—that is not possible. Some immediate steps can be, and have been, taken, but our work will be an on-going process. It is a developing policy front. Many of the improvements that we seek are long term and will take months and perhaps even years to realise, so we must ensure that we maintain the momentum of the past few months.

To that end, I welcome the recent creation of the new cross-party group in the Scottish Parliament on supporting veterans. As has been mentioned, a meeting of the group has been arranged for 30 September, and I am grateful for the kind invitation to join it to explore the opportunities that we have before us. I am also delighted that we can move forward in a cross-party, non-partisan way, and I look forward to being able to work closely and constructively with the group in the future.

I hope that many of the issues that have been raised in the debate have already been dealt with. Mary Mulligan and Murdo Fraser mentioned housing. It is true that in June we announced that priority access to our shared equity schemes would be open to forces personnel and recent veterans. We are also working closely with the MOD to identify suitable surplus MOD land sites and housing that can be used to meet housing

need. We have already had the first transfers of housing in Fife.

On adaptations, we propose to abolish the test of resources and to award grant at a minimum rate of 80 per cent—the current rate is 50 per cent. The adaptations grant will rise to 100 per cent for people who are in receipt of particular income replacement benefits. Even if people do not receive those benefits, local authorities will still be free to increase the award from 80 per cent to 100 per cent if they so desire.

As regards the mental health issues that Trish Godman raised, I very much agree with the excellent work that the organisations concerned have done. Earlier this year, we increased by 45 per cent the fees that are paid to Combat Stress to provide specialist mental health care and treatment, but I agree that much more still needs to be done.

As I have said, the Scottish Government is committed to doing all that it can to improve our veterans' quality of life, but the announcements that were made over the summer will mean little without the continued efforts of all those involved to ensure the implementation of the measures that have been outlined. I look forward to taking up that challenge and to working with the MOD, veterans organisations and the Parliament—in particular, the cross-party group—to ensure that that happens.

Meeting closed at 17:42.

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