The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Tuesday 23 November 2010

Session 3

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

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FINANCE COMMITTEE
26th Meeting 2010, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)
*Malcolm Chisholm (Edinburgh North and Leith) (Lab)
*Linda Fabiani (Central Scotland) (SNP)
*Joe FitzPatrick (Dundee West) (SNP)
*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)
Lewis Macdonald (Aberdeen Central) (Lab)
Stewart Maxwell (West of Scotland) (SNP)
Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Alistair Brown (Scottish Government Finance Directorate)
Derek Croll (Scottish Parliament Financial Resources)
Paul Grice (Scottish Parliament Clerk and Chief Executive)
Tom McCabe MSP (Scottish Parliamentary Corporate Body)
Neil Ritchie (Scottish Government Rural and Environment Directorate)
Ross Scott (Scottish Government Finance Directorate)
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)
Judith Tracey (Scottish Government Rural and Environment Directorate)
John Williams (Scottish Government Finance Directorate)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Tuesday 23 November 2010

[The Convener *opened the meeting at 14:31*]

Subordinate Legislation

Budget (Scotland) Act 2010 Amendment (No 2) Order 2010 (Draft)

The Convener (Andrew Welsh): Good afternoon and welcome to the 26th meeting of the Finance Committee in 2010, in the third session of the Scottish Parliament. I ask everyone present to turn off all mobile phones and pagers.

Agenda item 1 is to consider the Scottish statutory instrument that provides for the autumn revision of the 2010-11 budget. The draft Budget (Scotland) Act 2010 Amendment (No 2) Order 2010 is subject to affirmative procedure, which means that the Parliament must approve the instrument before it can be made and come into force. A motion has been lodged in the name of the Cabinet Secretary for Finance and Sustainable Growth, John Swinney, inviting the committee to recommend to the Parliament that the draft instrument be approved.

Before we come to the debate on the motion, we will have an evidence session to clarify any technical matters and to allow explanation of detail. I welcome to the committee John Swinney MSP, the Cabinet Secretary for Finance and Sustainable Growth, who is accompanied by John Williams, head of finance co-ordination, and Alistair Brown, the deputy head. I invite the cabinet secretary to make an opening statement explaining the instrument. I remind him not to move the motion.

The Cabinet Secretary for Finance and Sustainable Growth (John Swinney): Usually, we have only two revisions of the budget during the year, with the autumn budget revision being the first time we amend our budget. However, this year we have already had a summer budget revision, so this is the second of three routine revisions to the budget that occur in-year. The final revision will be the spring budget revision, which will be laid in late January.

As in previous years, a pattern of authorising revisions to the budget in autumn and spring is required, as the detail of our spending plans inevitably changes from the time when the budget act is passed. Members will recall that the summer budget revision in May took account of the removal of the cost of capital from budgets.

The autumn budget revision mainly takes account of the increase in the national health service and teachers' pensions budget and the allocation of the Barnett consequentials to capital projects that I announced in April. The changes that are proposed in the revision result in an increase in the approved budget of approximately £819 million, from £33,902 million to £34,720 million.

The main revision is largely technical in nature. An increase in funding for NHS and teachers' pensions of around £714 million in annually managed expenditure is required. That is the result of a change in actuarial factors, particularly the discount rate that is applied to future pension scheme liabilities. Her Majesty's Treasury reviews the rate on an annual basis, and resulting changes to AME budgets require to be made at the autumn budget revision each year. There are a few other minor technical changes to AME and expenditure outside the overall departmental expenditure limit budgets, resulting from reclassifications and revised estimates.

If we set aside those technical changes, which amount to £742 million, the budget has in fact increased by approximately £77 million, mainly as a result of the allocation of capital funding for affordable housing, roads and sustainable transport initiatives, further education colleges, the Dundee waterfront project and renewable energy infrastructure, which I announced back in April. The other significant transfers within the Scottish block are due mostly to the realignment of budgets within and between portfolios, including a net transfer of £67 million to further education for nursery and midwifery training and just under £29 million to health in respect of drug treatment and prevention.

The document "A Brief Guide to the 2010-11 Autumn Budget Revision", which has been prepared by my officials, sets out the background to, and the details of, the main changes that are proposed. In accordance with our spending review plans, a total of £302 million will be drawn down from our end-year flexibility balances at Westminster's winter supplementary, as agreed as part of the spending review in 2007—£174 million arising out of that provision and £128 million to cover the reduction resulting from the Department of Health's capital budget, which was announced in the pre-budget report in 2009. That is already reflected in the original budget that has been approved for 2010-11 and has no impact on this revision.

Members will be aware that, in the draft budget that was published last week, I referred to carrying forward £100 million of budget provision from 2010-11 to support an equivalent sum of capital expenditure in 2011-12. Having abolished end-year flexibility as part of the 2010 United Kingdom spending review, the Chancellor of the Exchequer offered the devolved Administrations some additional flexibility to agree DEL reductions in the current year, with an equivalent increase next year. I intend to take advantage of that mechanism to protect and maximise the budget resources that are available to Scotland and will provide details of those changes as part of the spring budget revision.

Members will appreciate that the autumn budget revision was prepared prior to the UK spending review announcement and that this strategy has evolved as we have considered how best to respond to the extremely severe reductions in capital expenditure in 2011-12, and to take advantage of the limited flexibility that has been offered by the chancellor.

I am happy to answer the committee's questions.

The Convener: Thank you. We now move to questions and clarifications, beginning with Linda Fabiani.

Linda Fabiani (Central Scotland) (SNP): I think that everyone here agrees that the times are unprecedented. We have taken lots of evidence on the reform of public services and the necessity of preventative spending. I am interested in what you have said about the change fund—the £70 million that has been taken from within NHS board allocations for closer working between the national health service and local authorities. Can you give me a better explanation of that and how it ties in with your views about how to ameliorate the effects of the cuts? How does it relate to preventative spending, working together and the reform of public services?

The Convener: I point out that that was not in the budget revision. It is up to the cabinet secretary whether he wishes to answer.

John Swinney: I am in your hands, convener. The £70 million change fund that has been announced as part of the budget that I set out last week is designed to support some of the alteration to the way in which we deliver services in Scotland. The inquiry that the committee is currently conducting on preventative spending, to which I will give evidence next week, is covering how we can break down some of the barriers that exist within different public services, how we can reinforce what the Government has concentrated on in all its policy interventions, and how we can focus on outcomes and what is delivered to individual members of the public as the driving force behind how we design public services. There is a significant opportunity to be realised there. There is a great prospect of our doing all that, and the change fund is designed to fund that collaboration between the NHS and local authorities as well as other providers—principally in the voluntary sector—into the bargain.

Joe FitzPatrick (Dundee West) (SNP): The cabinet secretary mentioned £100 million of revenue funding being moved into capital funding. Where is that expected to come from?

John Swinney: As the committee will know, there are a number of different areas where spending pressures do not materialise as we predict, or there are changes that we can make within particular budgets. There is a range of different sources that will comprise the £100 million that I intend to carry over: there is a revenue saving associated with the transfer of responsibility for police pensions to the Scottish Government; there are revenue savings from the Forestry Commission Scotland arising out of the changes to the way in which its operations are structured; there are reductions in the running costs within the rural affairs and the environment portfolio; there are some savings from unitary charges that we had essentially overprovided for; and there are savings in public service reform and the Accountant in Bankruptcy. There are also capital savings in the Crown Office capital building programme and there is a reduction in the in-year borrowing requirements that are necessary to sustain the capital programme of Scottish Water at this stage.

Joe FitzPatrick: Thank you. To take that slightly further, within the revised budget it is clear that Barnett consequentials have been used to support capital. Can you tell us how those decisions were made?

John Swinney: On the Barnett consequentials, my officials will give me the balance of how the £76 million was structured between capital and revenue, as it has escaped me for the moment. However, some of the Barnett consequentials are revenue, and we decided because they were one-off consequentials to invest them exclusively in capital.

We identified that over the course of the economic recovery programme the Government has maintained a dialogue with agencies and with different policy teams within the Government about areas where capital expenditure could be enhanced to support economic recovery. Essentially, we have decided to deploy that expenditure on areas that concentrate support on some of our major priorities, particularly in relation to the low-carbon economy. Enhancement of the low-carbon vehicles fund, the cycling action plan and the green bus fund have been substantial parts of that process.

Some projects have been at a point at which further investment could accelerate their development; Dundee waterfront is a very good example of that. The Arnish development in the Western Isles on the renewable energy front is another example. However, the largest chunk of the consequentials has gone on affordable housing; I think that Parliament recognises that there is a significant opportunity to boost economic recovery by investing in affordable housing. So, the Government has taken a range of decisions based on where projects had the greatest capability to spend at the earliest opportunity. On other projects, work is under way on the A9 development at Crubenmore, for example.

There was a total of £76 million of consequentials, £59 million of which was in resource and £17 million was in capital. The Government decided to allocate all the funding to capital, recognising that they were one-off consequentials.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Good afternoon, cabinet secretary. I just want to understand what the £714 million for the pensions relates to. Is that additional capacity: do the teachers and NHS pension funds in Scotland have £714 million extra? Is it an accounting mechanism, or what?

John Swinney: No. Essentially, it is pay-outs of pensions to pensioners.

Jeremy Purvis: So there is increased—

John Swinney: The amount arises from changes to a number of the actuarial considerations that underpin pension payments, which happens annually. There is revaluation of pension liabilities based on changes to actuarial assumptions. The discount rates that are used are revised regularly. Those costs are supported by annually managed expenditure, which is provided for by Her Majesty's Treasury.

Jeremy Purvis: Pensioners who had served in the NHS or as teachers will have received £714 million more in their pensions. There is more pay-out in Scotland.

John Swinney: I do not know that it is as simple as that. A highly sophisticated level of calculation underpins all the pension calculations. Administrative changes are undertaken that affect the calculation that looks at the value of future liabilities, and the Treasury makes provision for that on an on-going basis.

14:45

Jeremy Purvis: Okay.

It is probably fair to say that the movement of revenue to capital that you mentioned in your statement—which, according to your answer to Joe FitzPatrick's question, may well be coming in the spring budget—is warmly welcomed by business organisations, but is it also fair to say that they probably did not realise that the money that is to be moved is underspend from this year?

John Swinney: I do not know quite what they would have thought, but it was pretty clear that I was moving expenditure that could have been spent this year into next year.

Jeremy Purvis: So, it is underspend.

John Swinney: Yes, it is underspend. It is planned underspend that I have taken certain decisions to create.

If Mr Purvis goes back to discussions that we had in the Finance Committee some months ago, he will find that—in answer to Mr Brownlee, I think—I left open the possibility that I would take steps in this financial year to cushion the financial shortfall that we face next year if I thought that there were changes to spending programmes that could be made that would not disrupt economic recovery. That is exactly what I have done. It is clear that the resources in question are being transferred from 2010-11 to 2011-12 to make up for the capital reductions that we face in 2011-12.

Jeremy Purvis: So the judgment was made not to redeploy that £100 million of underspend now; you are waiting for next year.

John Swinney: That is correct. I made that judgment for the clear reason that I had expected a fall in our capital budget next year of about £600 million to £650 million. In fact, the fall is to be £850 million. I judged it to be important to create as much compatibility between this year's capital programme and next year's in order to sustain capital investment in the economy.

Jeremy Purvis: In all the statements that the Government has made on this budget year, it has spoken about wanting to get cash out the door for shovel-ready projects, but £100 million of that cash is sitting in a bank account, not being issued.

John Swinney: We can spend the money only once. As I said to the committee a few months ago, I must look at the pattern of economic recovery as carefully as I can. I do not think that anyone who looked at the scale of the reductions in public expenditure in 2011-12 would not be seized of the challenge that I am faced with in identifying resources that will provide the ability for us to manage some of those reductions. That has underpinned the decision that I have arrived at. I advertised clearly to the committee that I would give the matter consideration later in the financial year. I have now reached that point and taken the relevant decisions.

As far as shovel-ready projects are concerned, the answer lies in how the Barnett consequentials have been deployed: they have gone on supporting the upgrading of the A9 at Crubenmore—which is under way—on the Dundee waterfront project, on our renewable energy infrastructure in the Western Isles and on providing additional capital spending funding for further education colleges, all of which is benefiting local economies.

Jeremy Purvis: I understand the points that you make, but I am still confused about the fact that £100 million is being left over from this year's budget, which could have been put to work supporting the economy now. The construction industry, for example, is crying out for work.

John Swinney: The construction industry would, if we did that, be sitting in front of us in 12 months saying that the fall in the Scottish Government's capital budgets was even greater than had been predicted or planned. What would we do in those circumstances? The judgment at which I have arrived—I appreciate that it is a judgment—is that, where we identify resources that can be saved in this financial year without an impact on economic recovery, we can deploy them in 2011-12 to support and boost economic recovery.

I stress to the committee that the expected reduction in capital budgets in 2011-12 is far greater than was previously envisaged at any stage in the process. That is courtesy of the United Kingdom Government's decisions. As a consequence, I have decided to try to provide continuity in capital expenditure between 2010-11 and 2011-12 for the construction industry. It is obvious that I had the ability to deploy £76 million in this financial year, which was announced only at the start of the financial year.

The Convener: We are in danger of moving into debate when we are meant to be seeking clarification. A debate will follow. Members should be aware of the danger of moving that way.

Jeremy Purvis: The cabinet secretary or his officials might be able to help me on motorway and trunk road investment. I cannot correlate the figures that show the result of changes for motorway and trunk road investment in schedule 3.6 of the autumn budget revision with the figures in the draft budget that show a starting point in 2010-11 for the same budget line.

John Swinney: Will Mr Purvis give us the numbers on which he is focusing?

Jeremy Purvis: If I am looking at the right figure, the total in the ABR proposed budget for motorways and trunk roads is £551.4 million. The starting point from 2010-11, in table 7.11 of the draft budget, is £544.1 million.

John Swinney: I do not know whether my officials can provide any information. The difference between the two figures is £7 million. We will have to write to you with a detailed explanation.

Jeremy Purvis: Thank you.

John Williams (Scottish Government Finance Directorate): What appears in the ABR is the budget on the basis of which Parliament approves it. That differs in some ways from the draft budget, which is based on the control aggregates from the Treasury. When we produce each year's budget bill, a table at the front of the supporting document explains the difference between the draft budget and the budget as approved in parliamentary terms. Some matters, such as non-departmental public body non-cash costs and local authority supported borrowing, are not approved by the Parliament but appear in the ABR, so some difference will always exist.

Jeremy Purvis: I know that, but the motorway and trunk road budget started as £533 million and £17.7 million of changes have been made in the autumn budget revision. If you have an explanation, that will help.

I will ask about how figures are presented and about the DEL situation that we are looking at. The question is on the draft budget document, but it relates to the judgment on the budget revisions. Table 1 in annex A to the draft budget contains the departmental expenditure limits. The note to the table points to the reduction of £1.2 billion in the DEL that the Scottish Government always cites—the First Minister talked about that last week. The note says:

> "Reduction in 2010-11 DEL mainly due to removal of cost of capital (£500 million) as part of the UK Government's Clear Line of Sight initiative."

Is that an accounting change or a real reduction in revenue that would be available?

John Swinney: That is the substance of the summer budget revision that we undertook, which was to remove the cost of capital as a concept from Government accounting. The cost of capital was introduced in 2004. In essence, it was another accounting technique to try to provide more effective management of the public finances that are applied by the United Kingdom Government. In 2010-11, it was removed from all Government accounting. Numbers will therefore look different from budget document to budget document. In essence, that is because characteristics such as the cost of capital have been removed from the process.

David Whitton (Strathkelvin and Bearsden) (Lab): Given Andrew Goudie's report and the independent budget review report in July, which told us of what is coming down the track, it must have been a fairly unwelcome letter that you received from the United Kingdom Government asking you for a £7 million contribution to an upgrade for tax equipment. Was any thought given to including that in this revision?

John Swinney: I had not given thought to including that in the revision. I asked my officials to engage in further discussion with HM Revenue and Customs on issues that were connected to the £7 million indicative cost that HMRC had suggested. Given that fact, it would not have been appropriate to include the cost in the autumn budget revision.

David Whitton: You say that even though you knew that it was a bill that you would have to face. Surely you would have made some provision for it or made some kind of set-aside.

John Swinney: The amount of £7 million was a surprise to us. Up until that time, the number that we were dealing with was a potential £1.2 million. For some time, my officials have been involved in discussions with HMRC to seek clarity on that £1.2 million—what it would pay for and what it would deliver. We wanted to know what product would result from paying that sum of money. It is fair to say that it took us some considerable time to get clarity from HMRC on what was involved and how it would be taken forward. We knew that we would have to go through about two years in which we would be to-ing and fro-ing with HMRC about the money.

Some time ago, HMRC suggested that £1.2 million was probably not the correct figure and that it was likely to be higher. We had gone through the best part of 18 months without a specific figure, so then to hear that the figure was to be £7 million raised some questions for me on whether the number is as robust as it should be. Of course, when we were told of the £7 million, it was given as an indicative cost. It did not come with assurances such as I would seek on a cost of this nature. For example, I would seek assurance on whether the £7 million is to be a fixed cost. We all know about the difficulties in getting not fixed but indicative costs. I felt that it was only appropriate for my officials to find out exactly what the figure would purchase for us and what was involved. Subsequent to that request for discussion with HMRC, we heard nothing further on the matter until we received the Secretary of State for Scotland’s letter last Thursday.

David Whitton: As I understand it, there should have been an annual payment of £50,000. Where has that gone?

15:00

John Swinney: An annual payment of £50,000 was made by the previous Administration to maintain the database of addresses and personnel involved in the Scottish variable rate. The £1.2 million figure—or £7 million figure, I should say—is about ensuring that the Scottish variable rate infrastructure is compatible with the current infrastructure of the UK tax system. That is quite a big issue because, as Mr Whitton will probably now have realised, the previous Scottish Executive paid £12 million in 2000 and surrounding years to set up the infrastructure for the Scottish variable rate. For me to be faced with a £7 million bill essentially to make the SVR compatible with a system that my predecessors had already paid £12 million for begs a few questions. Understandably, the Finance Committee might want to ask me about some of those judgments when it probes me about how I decide on public expenditure. The £50,000 payment is simply about updating addresses. The £7 million figure is about updating the infrastructure of the system to make it compatible with all the changes that have taken place in HMRC’s systems since 2000.

David Whitton: But if—

John Swinney: Just let me finish.

That is a large sum of money in the context of my predecessors having paid £12 million to establish the system in the first place.

David Whitton: But if I understand you correctly, cabinet secretary, you took the decision not to pay the £50,000 just to keep the addresses updated.

John Swinney: The point that I am making—

David Whitton: Was that correct?

John Swinney: The point that I am making is that the £7 million was requested of us to ensure that the Scottish variable rate system could be operated compatibly with UK tax systems. That is the question that I am faced with and was faced with in July 2008, with three weeks to provide an answer.

Alistair Brown (Scottish Government Finance Directorate): 2010.

John Swinney: Sorry. It was 2010, with three weeks to provide an answer and with an indicative cost. Some pretty substantial questions need to be examined about the basis of the figures, which is why I welcome the fact that Parliament is to debate the matter tomorrow.

David Whitton: With due respect, there is also a substantial question about why you took the decision not to pay the £50,000 for what would be regarded as an annual upgrade.

John Swinney: I think that Mr Whitton has to be very careful about his terminology. He uses the term “annual upgrade” but that is not what we are talking about. The £7 million figure, which is the figure in question and is the basis upon which the

Secretary of State for Scotland has written to the party leaders in Scotland, is about ensuring that the architecture and infrastructure of the information technology systems for the SVR are compatible with the existing tax system of the UK.

My point is that, given that my predecessors spent £12 million on the system, I think that I am entitled to probe whether £7 million—if that is the figure, because all I have is a figure of £7 million with "indicative cost" written beside it; I do not have a definitive cost—represents value for money, particularly at a time when there are many other demands on the public purse for £7 million.

The Convener: I remind you that the debate is to follow and that other members wish to come in. Does Mr Whitton want to ask another question?

David Whitton: Just one, to clarify the situation, because I want to be clear. Does the £7 million that we are talking about include a back payment going back three years? Has HMRC rolled it all up and said, "Well, there is £150,000 that you have not paid us, Mr Swinney, and we are adding that to whatever we were going to charge you for the new infrastructure?" If you like, you have a tab running and you have not paid it.

John Swinney: I think that even HMRC would have difficulty inflating £150,000 to £7 million—that would stretch even HMRC.

David Whitton: I understand that. I am just asking you whether the amount is included in the sum of money for which you are being asked.

John Swinney: My point is that the £7 million figure is about ensuring the technical capability of the SVR system to work alongside current tax systems in the UK. I think that I should probe that figure to establish whether it is justifiable, bearing in mind the fact that my predecessors already spent £12 million on the project.

David Whitton: Yes, but the figure was £1.2 million then, not £7 million.

John Swinney: Does that not also indicate—

David Whitton: It does not explain why you did not pay the £50,000.

John Swinney: What HMRC has said to us in the post-2007 period is that work had to be undertaken to ensure that there was an upgrade of the SVR system to ensure that it operated compatibly with the UK tax system. My officials were exploring with HMRC for some time a proposition that we thought was in the order of £1.2 million to improve the system. We then went into a prolonged period of uncertainty. In July, that indicative cost suddenly became £7 million. The Finance Committee and the Public Audit Committee would certainly want to know what decision-making process I used around such a sum of money.

Derek Brownlee (South of Scotland) (Con): I want to pick up on a couple of points in the budget revision. We are talking about 2010-11. If I have picked up his point about SVR correctly, the cabinet secretary is talking about future fiscal years. The Secretary of State's letter is talking about after 2011, so if HMRC gets in touch with you after July next year, it will, by definition, be talking about the fiscal years after 2010-11 because we are already in that year. I appreciate that a decision was made not to exercise the SVR in financial year 2010-11, but if the Scottish Government had decided to exercise it, is the cabinet secretary saying that it could have been exercised in 2010-11?

John Swinney: I am saying that, since 2007, HMRC has made it clear to the Government that in order for the Scottish variable rate to operate, the system would have to be improved. For a prolonged period during the process, I was under the impression that one of HMRC's propositions was that the improvements would cost £1.2 million. As I said to Mr Whitton, that proposition disappeared after a while and the next figure, which we got on 28 July, was an indicative cost of £7 million.

Derek Brownlee: I appreciate that, but from what you have just said, it seems to me that if changes were required to the system, the SVR was not available to be exercised. When did HMRC tell the Scottish Government that system changes would be required for the SVR to be capable of being exercised?

John Swinney: That advice was given to me when I became a minister.

Derek Brownlee: In May 2007.

John Swinney: Yes, May 2007.

Derek Brownlee: It just strikes me as odd, to say the least, that today we are discussing a budget revision of £77 million, under procedures under the Public Finance and Accountability (Scotland) Act 2000 and the written agreement between the committees and the Government, but at no point in the past three years has it been thought that Parliament or the Finance Committee needed to be told about the apparent inability to exercise a power that could raise £1.2 billion.

John Swinney: If Mr Brownlee will forgive me, I think that that question is one that I might helpfully address in my statement in Parliament tomorrow.

Derek Brownlee: Helpful comments on that would certainly be quite useful.

I will move on from the issue of the SVR, although I am sure that we will come back to talk about it at length.

I heard what the cabinet secretary said about the underspend, and I accept the explanation about the decision on the 2010-11 underspend and what will happen to it in 2011-12. Can we take it from that that, assuming that the budget revision is passed, the current projected underspend for financial year 2010-11 is in the order of £100 million?

John Swinney: No. In the spring budget revision, I will restate the budget to remove £100 million. In a complementary way, the UK Government in the winter supplementaries in the House of Commons will, in essence, restate the Scottish budget and take £100 million out of our departmental expenditure limit total in 2010-11 and apply it to our DEL total for 2011-12.

Derek Brownlee: In other words, there will be an underspend—

John Swinney: I am sorry; let me finish my answer for the sake of completeness.

I will then have to deliver a budget within the financial limit within which I have to operate, and for all the reasons that the committee is familiar with, there is likely to be a further underspend beyond that. Clearly I cannot bring in a budget that comes in at £5 lower than the total; it just cannot be done. Therefore, there will be an underspend.

The consequence of the changes that the United Kingdom Government has made to the financial arrangements is that the end-year flexibility opportunity that has been available in the past will not be available, so the resource will be lost to Scotland. Therefore, I will do my level best to maintain the underspend at the lowest level possible but, as I think the committee understands from previous discussions, it is not easy for me to keep it to as low a number as I would like.

Derek Brownlee: On page 7 of the autumn budget revision document, you helpfully list the sources of funding for the Scottish Administration. We are talking about a revision for which, for the things over which you have control, the policy decisions were substantively announced in April, before the general election, and we are taking decisions in November. In the accompanying document to the revision, there is a non-domestic rate income forecast of £2.068 billion. Is that forecast from April 2010 or November 2010?

John Swinney: That will be the forecast in the budget bill in the spring. I cannot give a precise date for the estimate, but it will be the most up-to-date estimate of non-domestic rate income that I had to put into the budget bill in February. I can state that figure only once in the year.

Derek Brownlee: Does the Government have an updated expectation of what the figure is at this stage? It might not be £2.068 billion.

John Swinney: There are always variations one way or the other from the figure that we put into the budget bill on non-domestic rates. Sometimes the estimate is correct, sometimes we underestimate and sometimes we overestimate. In essence, the volatility is managed through the non-domestic rate account, which is held in the consolidated fund. In some years that operates in surplus and in some years it operates in deficit but, crucially, the Treasury takes a close interest in its management over a sustained period of time.

Derek Brownlee: Are you able to share with us your current estimate of non-domestic rate income for this financial year? It is a crucial component in determining how much flexibility there is and how much of an underspend you might end up with.

John Swinney: It is not a factor in underspend at all. I guarantee the figure of £2.068 billion in the budget bill, so if the income comes in at, say, £2 billion, I am £68 million worse off. I guarantee the figure to local authorities, so they have to receive £2.068 billion.

Derek Brownlee: That is the point. If you came to us today to say, "We said it would be £2 billion, but in fact it will be £1.7 billion," we might have second thoughts about authorising your £77 million extra expenditure.

John Swinney: Correct.

Derek Brownlee: That is why I was asking what you think the figure is.

John Swinney: It is a guaranteed sum of money, but I must be mindful of two other factors: the current status of the non-domestic rate account in the Scottish consolidated fund—as I say, in some years it is in surplus and in some years it is in deficit—and the best expectation that I can have of the income to be realised out of non-domestic rates, which, again, sometimes we get correct but sometimes we underestimate or overestimate.

Derek Brownlee: I understand that, but it is not obvious from what you have said whether you expect to have got it wrong in an upwards or downwards direction.

John Swinney: I will not know the answer to that question until the end of the financial year.

Derek Brownlee: Will you not have any indication at all until then?

John Swinney: I could give another estimate of what it is—and I have that estimate—but that would not take us much further forward. The £2.068 billion is a guaranteed sum of money that I have to produce to support local authority funding.

I can make estimates about the income, and I receive estimates on a regular basis, but I will know the answer to the question of what materialises only at the end of the financial year.

The Convener: The issue has been taken as far as it can.

Tom McCabe (Hamilton South) (Lab): I will return to the SVR, cabinet secretary. I understand your concern that £12 million was paid some years ago, and I can understand your concern about a demand for perhaps another £7 million. How much of your concern about the £7 million is predicated on the knowledge that, irrespective of whether the new system cost £1 million, £7 million or £70 million, it would not produce any results if the database that it runs on was not updated?

15:15

John Swinney: The question is whether the IT infrastructure can operate compatibly with the UK's taxation system. When I became a minister, the point was made to me in a briefing that infrastructure upgrading work would be required in relation to the Scottish variable rate system and that that needed to be explored with HMRC.

Tom McCabe: Do you know of any taxation system that could run without an up-to-date database?

John Swinney: Of course it must have an up-to-date database, but that is not the key question. If there had been an up-to-date database and the IT infrastructure had been unable to operate compatibly with the UK system, the system would not have functioned properly.

Tom McCabe: But a database is pretty fundamental to any system, is it not?

John Swinney: The question is not so one dimensional. The question is whether the IT systems on which the Scottish variable rate is predicated operate compatibly with the UK tax system, and the advice that I got when I became a minister was that further upgrading work was required to make that the case. We could have had all the databases in the world but, if they had not worked, we would not have been able to collect the tax if the Administration had decided to operate the system.

Tom McCabe: I understand that there is a multitude of questions. I am asking you the first, fundamental question. Databases do not work—they are just information that would go into the system. If that basic information was deficient and had been allowed to lapse, surely any system would become redundant.

John Swinney: Even if the database of personnel was absolutely up to date, if the IT infrastructure was not compatible with the UK tax system, the information would have been meaningless. That is the point that I am making and why it was important that I established why I was being asked for an additional £7 million to update the infrastructure, bearing in mind the fact that my predecessor had already spent £12 million on the infrastructure. That seems to be the key question.

Tom McCabe: With respect, cabinet secretary, you seem to be conflating two incidents that are separated by a fair amount of time. You took a decision in 2007 not to pay £50,000 and you were asked for £7 million in August 2010. In your answer, you seem to be conflating the two.

John Swinney: When I became a minister, I was given a briefing that indicated to me that, if the Scottish variable rate was to be able to deliver what is called 10-month readiness—it has always been a feature of the system that it would have to have 10-month readiness, as HMRC could not apply it in a shorter timescale than that—there would be additional infrastructure costs. The Government had been elected on a commitment not to use the Scottish variable rate; so, we had to consider what was the best way to secure those infrastructure improvements to make sure that the system could have 10-month readiness. That is the point that I was making to Mr Whitton earlier about the figure of £1.2 million. That was the first figure that I asked my officials to explore to find out what that would deliver to ensure that the Scottish variable rate system could operate. I was always of the view that there had to be 10-month readiness for the Scottish variable rate.

We also had to wrestle with the fact that HMRC was fundamentally changing its IT systems at exactly the same time. Frankly, HMRC breathed a sigh of relief when the Government said that it would not use the Scottish variable rate during the current Parliament, because that enabled it to update its IT infrastructure.

The key point remains that the Scottish Government was being asked for a further financial contribution to establish the IT infrastructure in addition to what my predecessors had paid in the early part of this decade. That figure needed to be probed. From his experience as one of my predecessors, Mr McCabe will know that, when you are given a figure of £7 million as an indicative cost, it raises questions about what you will get for the money and why you are being expected to pay it. I know that that raised such questions in his mind, because we used to hear about them when I sat where he is sitting and he sat where I am sitting. Those are the questions that I asked my officials to ask.

Tom McCabe: I appreciate that few of the decisions that someone in your position is asked to make are less than complex. However, I would like to think that, when I sat where you are sitting, I shared as much information as possible with both the Finance Committee and Parliament. Do you in any way regret that, back in 2007, you did not see a case for sharing the complexity of the issue with the committee and Parliament?

John Swinney: That question takes me on to the territory about which Mr Brownlee asked. I have reflected carefully on the issue since I received the Secretary of State for Scotland's letter on Thursday. Mr McCabe will appreciate that I am on the receiving end of a huge volume of information; if I shared all of it with Parliament, the briefcases with which members go home every night would be bigger than they are. I must reflect carefully on the issue of what information I could have shared with Parliament and the Finance Committee at the time. That will be part of the substance of what I say to Parliament tomorrow.

Tom McCabe: I appreciate your concern for our workload.

The Convener: I invite Malcolm Chisholm to finish this section of questioning.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): Tom McCabe has asked some of the questions that I planned to ask. With respect, I point out that the Government's manifesto commitment on the variable rate is irrelevant, because the budget is a matter for Parliament rather than for the Government.

That leads on to a wider concern. As today's proceedings indicate, we pride ourselves on the transparency of our budgetary processes and on recognising that those are a matter for Parliament. The key question is why Parliament in general and the Finance Committee in particular were not informed of the decision, because it was clearly of relevance to the budgetary considerations in which all of us were involved.

John Swinney: That is a fair question. As I said to Mr McCabe and Mr Brownlee, I am reflecting carefully on the matter. I will say more about it to Parliament tomorrow.

Malcolm Chisholm: Do you think that some of the statements that you have made—rather than those that you have not made—gave the impression that we could exercise the power more readily than we can under the circumstances?

John Swinney: There are two fundamentally separate issues. First, page 63 of the 2011-12 budget document states:

> "In accordance with the agreement between the Scottish Government and the Parliament's Finance Committee on the budget process, the Scottish Government confirms that it will not use the existing tax varying powers in 2011-12."

A similar paragraph has appeared in every Scottish budget document since 2005-06. The budget process requires me to make clear on an annual basis whether I will use the tax-varying powers. I have clarified that I will not do that. That is the answer to the question, "Will you use the power?" I am obliged to make that commitment to Parliament, which I have done.

The second question is the one that Mr McCabe has put to me: should more information about some of the complexities around use of the power have been made available? I am reflecting carefully on that issue. If the committee will forgive me, I am finalising what I want to say to Parliament on the point and will say it tomorrow.

Malcolm Chisholm: It is not untrue to say that the Government will not use the power, but would it not have been more accurate to say that the Government cannot use the power?

John Swinney: I come back to the point that I have just made: the wording in this document is the wording that has been used since 2005-06. I have simply maintained the convention of giving Parliament clarity on whether the Government will be using the power or not.

The Convener: I invite Jeremy Purvis to ask a question very quickly.

Jeremy Purvis: I am grateful, convener. I am still not entirely sure why no provision would be made within the budget revision unless the Government took a principled decision that it would not seek to have the tax-varying power for the coming years. Page 49 of the budget document—the same budget document that we are referring to—states:

> "Only three taxation elements are devolved - local taxation ... non-domestic rates and the Scottish Variable Rate which can vary the basic rate of income tax by up to 3p."

Cabinet secretary, you said in the budget document for 2011-12 that the power is devolved, but you knew that you could not exercise it—or Parliament could not exercise it. Why was no provision made—some cover—for using the power?

John Swinney: Mr Purvis helpfully makes the point that there is a devolved power to vary the rate of tax by 3p in the pound. I have read countless comments over the weekend, saying that the power has been abandoned or lost. That is not the case whatsoever. The power is in statute. I do not have the power to remove that power. It is in law.

Jeremy Purvis: Can Parliament exercise that power, cabinet secretary?

John Swinney: Parliament is free to exercise the power. The question is, how much would it have to pay HMRC to deliver that within the timescale envisaged by Parliament?

The Convener: Given that we have just heard from the minister that there will be a debate in Parliament tomorrow, that might be when the issue can be explored further. We have to move on. Joe FitzPatrick can ask the final question.

Joe FitzPatrick: On Mr Purvis's point, could the Labour-Liberal Administration have included in its last budget document in 2006 use of the tax-varying powers as income in that year, had it not taken previous—

John Swinney: I do not know all the detail of where things were at in 2006, but I make the point to Mr FitzPatrick that the system has always operated on the premise that 10 months' notice would have to be given to HMRC. If my memory serves me right, the budget in 2006 would have been published in September 2006 for the financial year 2007-08. It could not have been enacted thereafter unless—in fact, I do not think that it could have been enacted practically, because 10 months' notice has to be given to HMRC. The lead-in time for HMRC is 10 months, but the lead-in time for the Parliament getting to that point through its own deliberations would add a significant period on to that.

The Convener: We must now move on. I thank the cabinet secretary for his answers on a considerable range of finance topics.

We move to the formal debate on the motion. I invite the cabinet secretary to move motion S3M-7248 and to make an opening statement in the debate if he wishes.

John Swinney: I will simply move the motion.

Motion moved,

That the Finance Committee recommends that the draft Budget (Scotland) Act 2010 Amendment (No.2) Order 2010 be approved.—[*John Swinney*.]

Motion agreed to.

The Convener: The committee will now communicate its decision formally to Parliament by way of a short report. Parliament will then be asked to consider a motion on the order next week.

I will allow a short suspension before the next item of business for supporting officials to change over.

15:29

Meeting suspended.

15:31

On resuming—

Official Statistics (Scotland) Amendment Order 2010 (Draft)

The Convener: item 4 is consideration of another draft SSI: the Official Statistics (Scotland) Amendment Order 2010. Procedures for the consideration of the draft order are the same as for the order on the autumn budget revision. Rob Wishart, the Scottish Government's chief statistician, is alongside the cabinet secretary for this order.

I invite the cabinet secretary to make an opening statement explaining the draft order.

John Swinney: Thank you, convener.

The purpose of the amendment order is to extend the definition of official statistics in the UK Statistics and Registration Service Act 2007 to include statistics that are produced by five additional non-Crown bodies: the Scottish Children's Reporter Administration, the Scottish Consortium for Learning Disability, the Scottish Environment Protection Agency, the Scottish Further and Higher Education Funding Council and Scottish Natural Heritage. They are additional to the three non-Crown bodies that are named in the Official Statistics (Scotland) Order 2008, namely: the Common Services Agency for the Scottish health service, the Higher Education Statistics Agency and the Student Loans Company.

The Scottish Government has engaged with a number of public sector bodies that produce statistics on Scotland to discuss whether bringing their statistics into the definition of official statistics would help to improve standards. It is likely that we will propose to bring in some additional candidates next year, but those additional bodies are not yet in a position to be able to fulfil the requirements for official statistics.

The aim has been to focus on bringing into the order's scope bodies that produce important statistics that are used to inform the national performance framework or a key policy area. The order will ensure that the statistics that are produced by the bodies listed in it are designated as official statistics, which means that they should be produced and published to the professional standards that are set out in the UK Statistics Authority's "Code of Practice for Official Statistics".

The UK Statistics Authority is the non-ministerial department that was created by the UK Statistics and Registration Service Act 2007. It has the statutory objective of safeguarding the promotion and quality of official statistics.

The UK authority has welcomed the addition of these five non-Crown bodies in Scotland. The five bodies have been consulted and have agreed that they should be included in the definition. We do not envisage significant cost or burden to them and they have agreed.

We are clear that the statistics involved justify the approach and that the order will not place any burden on front-line services.

The Convener: I thank the cabinet secretary for that illuminating introduction. There being no questions, I invite him to move motion S3M-7247.

Motion moved,

That the Finance Committee recommends that the draft Official Statistics (Scotland) Amendment Order 2010 be approved.—[*John Swinney.*]

Motion agreed to.

The Convener: The committee will communicate its decision to the Parliament by way of a short report. The Parliament will be asked to consider a motion on the draft order next week.

I will allow a short suspension for the witnesses to change over.

15:34

Meeting suspended.

15:36

On resuming—

Scottish Parliamentary Corporate Body (Budget 2011-12)

The Convener: Under the next item on our agenda, we take evidence on the Scottish Parliamentary Corporate Body's budget bid for 2011-12.

I welcome to the committee Tom McCabe MSP in his capacity as a member of the Scottish Parliamentary Corporate Body; Paul Grice, the clerk and chief executive of the Parliament; and Derek Croll, who is head of financial resources.

I invite Tom McCabe to make a brief opening statement.

Tom McCabe MSP (Scottish Parliamentary Corporate Body): This is a welcome opportunity to present details of the SPCB budget for 2011-12 and our indicative plans for the following years. Convener, with your indulgence, I will preface my remarks on the specifics of the budget by explaining what has driven our approach to the task of setting it.

The SPCB is aware that we now operate in an extremely difficult fiscal environment. Few will escape the impact of the fiscal contraction that we now face, and we are very aware that we must strive as hard as we can to justify every pound.

Our approach is predicated on the belief that the Parliament's budget should reflect what happens to the wider Scottish budget. You will recall that the chief executive, Paul Grice, who is with me today, briefed the committee in October on the approach that we have taken to setting the 2011-12 budget. The figures that we present today confirm our approach in deeds as well as words. Indeed, as the indicative budgets show, we are slightly ahead of the curve. However, as the committee knows only too well, although budgeting over four years is extremely helpful, it is not a precise science, especially at the latter end.

Our total budget submission for 2011-12 is set out in a letter that the committee has received from the Presiding Officer. Excluding capital charges, our budget submission for revenue and capital expenditure shows a 5.3 per cent reduction in cash terms compared with the current year. That represents a reduction of 7.1 per cent in real terms. We plan for further cuts in expenditure over the following three years to achieve real-terms savings of 12 per cent on the current year's baseline by the financial year 2014-15.

To try to explain our position more fully, I will focus on three areas, the first of which is directly controllable costs. We have reduced the directly controllable costs of the Scottish parliamentary service by 8.3 per cent in 2011-12. That is equivalent to a 10 per cent real-terms reduction. We have done that by achieving reductions to budgeted expenditure across all areas of the service. Those were identified by our senior management as part of a comprehensive resource planning exercise.

A critical and yet regrettable element of that will include reductions in the overall staff complement of around 50 staff by the end of March 2013. The vast majority of those staff will leave much sooner. There is also a proposed pay freeze for SPS staff until 31 March 2013, which is accompanied by a constrained benefits package and, importantly, a guarantee of no compulsory redundancies over the same period.

Secondly, on members' pay and expenses, as the Finance Committee knows, we have received cross-party support for a proposal to freeze members' pay and expenses at the current level until 31 March 2013, and the budget has been set on that basis.

Thirdly, as members know, the SPCB is charged with oversight of the commissioners and ombudsmen. The Finance Committee has rightly taken a strong interest in how we exercise that oversight. Following constructive discussions with all the officeholders, we have set them the same budget reduction target as the parliamentary service over the coming years. The 2011-12 budget submissions of the various bodies amount to £8.4 million, which is a reduction of 4.5 per cent in cash terms, or 6.3 per cent in real terms, compared with the equivalent 2010-11 budget. As we have often said, the SPCB is acutely aware of the fine balance that it needs to strike between robust scrutiny and the operational independence that the bodies were given when the Parliament established them. In that regard, we are grateful for the strong support that the Finance Committee has given us in recent years as we have adopted a robust approach to our scrutiny of the various budget bids.

Finally, it is obvious to everyone that we are now operating in a different, far tougher environment. The savings that have been identified have not been identified easily, and the task of managing a reduction in the size of the Parliament's workforce is not a welcome one. It has given the chief executive and his senior management an uncomfortable time, but they have faced up to it with the professionalism that we would expect. It is only right that we place on the record our thanks for the work that has been done so far. We also put it on the record that we expect the figures that are contained in indicative budgets to be pursued in order to ensure that they are delivered in the subsequent years.

That concludes my remarks. I hope that I have given a flavour of the approach that we have taken. I, and my colleagues who are with me, will try to answer any questions that the committee may have.

The Convener: Thank you. Having served as a member of the SPCB during the first session of the Scottish Parliament, I am well aware of the formidable task that the SPCB faces in these troubled financial times, and I thank you for your statement.

I invite questions from members.

Malcolm Chisholm: The Scottish Government has indicated in its pay policy that it wishes to give some relative protection to those on lower pay, and £21,000 is the threshold that has been set for that. Was any consideration given to giving some protection to lower-paid workers in the Parliament?

Tom McCabe: Yes. It was probably remiss of me not to mention that. We have adopted the same approach. Any workers who are paid less than £21,000 will receive £250.

Malcolm Chisholm: Sorry, I did not realise that from what you said. Thank you. That is all I wanted to ask.

David Whitton: The corporate body has outlined a four-year budget. Why did you do that and not just go for a one-year budget?

Tom McCabe: We said that we would try to mirror what is happening in the Scottish budget. There was a comprehensive spending review, and we did not think that things were going to improve any time soon. We thought that, if we planned appropriately as far ahead as we possibly could, there was more likelihood that we would achieve the savings, we would give people enough notice of the changes that were going to happen, we would have a much better chance of ensuring that the parliamentary service is focused on our core business, and we could deliver the things that we are supposed to deliver as a Parliament by utilising the advance information as much as we could.

David Whitton: In your response to Mr Chisholm, you said that you are protecting those who earn less than £21,000 by giving them a flat-rate increase of £250. Do any parliamentary staff get less than the living wage of £7.15 an hour?

Tom McCabe: I do not think so.

Paul Grice (Scottish Parliament Clerk and Chief Executive): I do not think so. We can check the detail.

David Whitton: So nobody would be caught in that category.

I note that the commissioners and their staff are affected by the same cutbacks, but there seem to be slight differences in the budget reductions that the various commissioners have had to undertake. In particular, I note that the Scottish Information Commissioner has the lowest reduction of all. Is there any particular reason for that?

15:45

Tom McCabe: As I said earlier, we set the same targets for the commissioners as we set for the parliamentary service. Over the period, we expect that those targets will be met. Clearly, there are a number of reasons why the figures can be slightly adrift between the parliamentary service and the commissioners in the first year. A large amount of the savings in the parliamentary service have been achieved through a reduction in staff numbers, and the parliamentary service clearly employs an awful lot more people than any of the commissioners do. Therefore, it is difficult in year 1 for the commissioners to get the level of saving from staff reductions that the parliamentary service could get, but we have been very clear with the commissioners that over the period we expect them to achieve the same targets that have been set for the parliamentary service.

In addition, we anticipate some reasonably significant savings from shared services and the amalgamation of existing property from bringing different bodies together. We could have included those figures, but we felt that that would be wrong. We are very confident that the savings will be achieved, but until such time as we have them properly battened down and confirmed, we do not think that it is right to produce them, particularly in the figures that are before you today.

David Whitton: However, the Information Commissioner's staff budget has not changed, the human rights commissioner's staff budget is rising and the other three staff budgets are falling. What is the explanation for that?

Paul Grice: They offered the opportunity of the voluntary early retirement/early severance package that we offered, but they had no volunteers. We were left with the position of pushing ahead with compulsory redundancies or allowing the opportunity for natural turnover, which is obviously better for the staff and is, frankly, cheaper for the public purse. I think that the corporate body felt that at least a bit more time should be given. That explains the year 1 position. However, as Mr McCabe explained, there is no question but that over the period those savings will have to be delivered. On balance, the corporate body felt that it was right to give an extra bit of time in those circumstances.

Derek Brownlee: I guess that one of the big assumptions in your budget is the rate of natural turnover. I appreciate that you have put it at 3 per cent, which is lower than the 5 per cent that you experienced in the most recent year. What drives you to the conclusion that that level is prudent? I do not think that anyone will complain if it is 4 per cent rather than 3 per cent, but clearly there is a big problem if it is 2 per cent rather than 3 per cent.

Paul Grice: You are talking about the vacancy assumption.

Derek Brownlee: Yes.

Paul Grice: Historically, the rate has been 5 per cent, so 3 per cent is quite a significant tightening. It is clearly a judgment call, but 3 per cent feels about right. If the rate was 2 per cent, that would clearly put pressure on the pay budget. However, we have done some sensitivity analysis that suggests that we could cope with that. The short answer is that we would simply have to make reductions elsewhere. However, we feel that we could manage the sums involved. For example, it might mean delaying a project or making some other savings, but we felt that this was a time to make a prudent tightening of that assumption. I certainly think that 5 per cent going forward would have been too optimistic. Only time will tell, but we have generally been able to predict these things. I think that 3 per cent is a fair judgment call, but it is no more than that.

Derek Brownlee: On the points that David Whitton raised in relation to the commissioners and ombudsmen, I do not want to become a kind of pub bore on a subject that I have raised at previous evidence sessions. However, you have helpfully given us an overall breakdown in the comparison with previous budgets. Would it be possible for you to give us a separate comparison not just with previous budgets but with the actual expenditure? Particularly with regard to the newer commissioners and ombudsmen, we have been told in the past that some of the issues around levels of spend have been because they are settling in and establishing new things. I want to be quite clear that none of the set-up or start-up costs that we were told were transitory have been baselined into the budget and that the squeeze has not been applied to that higher budget. Is it feasible for us to be given an outturn comparison?

Tom McCabe: Yes, I think that we could do that. However, it would be safer to get back to you than to quote figures here today.

Derek Brownlee: That is absolutely fine.

My final question is another that it might be easier to answer in writing. I accept the explanation that has been given for why the staff cost numbers have not moved, which is reasonable, but I was struck by the fact that there is to be quite a substantial increase in the running costs of the Scottish Human Rights Commission, which are to increase from £165,000 in 2010-11 to £222,000 in 2011-12. That seems to be quite a significant jump. Can you explain what is going on there?

Derek Croll (Scottish Parliament Financial Resources): That relates to the research costs for a specific piece of work that the commission is undertaking—a comprehensive mapping exercise on human rights in Scotland.

Linda Fabiani: On the proposed reduction in staff-related costs, I note that the explanation in your submission mentions

"more cost effective corporate training arrangements and reductions in the budgets for job related training".

More than anything, I seek reassurance because when times are hard, training and staff development are often the first things to go, which is often a false economy. How has that been approached?

Tom McCabe: I will preface the chief executive's remarks by saying that we are taking a lot of money out of the corporate body's budget, so we will have to do things differently. There is a strong determination that we continue to protect the core services and avoid making the organisation of less worth than it was, but I simply do not think that it is possible, when budgets are being reduced by such an amount, for some difference not to be felt in the way in which the organisation goes about its business.

Paul Grice: Mr McCabe makes an important point, which sets the context.

I can give you an assurance that the training and development budget remains reasonably substantial. The difference going forward is that it will be much more clearly focused. You will see that, as part of our plans, we will have to move people around the organisation, especially if we are to deliver on the no compulsory redundancy guarantee. A really important part of that is to have enough budget to help people to acquire new skills so that they can perform those roles. Although the budget is more modest, I think that it is still adequate and it will be carefully targeted, particularly at staff who need to reskill. Tom made the more important, wider point.

Linda Fabiani: Spending on education and outreach is not separated out in the papers that we have. I think that one of the jewels of the Parliament is its accessibility and the outreach work that it does specifically on education, which is targeted at different levels of society. Can you give me some comfort that such work will carry on and keep our Parliament as it is known?

Tom McCabe: There is a very strong desire to maintain the Parliament's engagement activities, but it is only fair to say that we need to achieve very substantial savings in subsequent years, so a review of all the Parliament's activities is under way. I understand that there will be areas in which individual members have particular concerns, which we would want to do our best to take account of, but I think that it would be unhelpful if we simply gave everyone warm words and made false promises.

The Convener: As there are no further questions and our witnesses do not wish to make a final statement, I thank them for their evidence.

We will have a short suspension to allow the next witnesses to take their places.

15:53

Meeting suspended.

15:56

On resuming—

Reservoirs (Scotland) Bill: Financial Memorandum

The Convener: Item 6 is evidence on the financial memorandum to the Reservoirs (Scotland) Bill. I welcome the following Scottish Government officials: Neil Ritchie, head of the protecting land, water and air quality and managing flood risk branch; Ross Scott from rural affairs and environment finance; and Judith Tracey, head of flooding and reservoir safety policy.

I invite questions from members.

Malcolm Chisholm: In its submission, the City of Edinburgh Council criticises the savings that the financial memorandum sets out for local authorities. The council argues that, under current conditions, local authorities receive no funding for carrying out enforcement duties but, under the new proposals, they will be expected to pay Scottish Environment Protection Agency charges, which they argue will be an increase in cost rather than a saving. I have a local interest in the council's concerns, apart from anything else. What is the officials' response to the council's comments?

Judith Tracey (Scottish Government Rural and Environment Directorate): As part of its block grant, the City of Edinburgh Council receives funding for enforcing reservoir safety, because that is a recognised local authority duty that is wrapped up in the block grant.

Malcolm Chisholm: Okay—it is obvious that the council has taken a different view, but I am sure that we shall ask the council for its comments on what you have said.

Neil Ritchie (Scottish Government Rural and Environment Directorate): I understand why the council does not recall that the funding is bedded in, because the funding transfer to reflect that burden was undertaken more than two decades ago, when we dealt with the financial burden from the Reservoirs Act 1975.

Jeremy Purvis: Am I right in thinking that the financial memorandum gives costs up to 2015-16?

Judith Tracey: Yes.

Jeremy Purvis: How is that possible?

Judith Tracey: Sorry?

Jeremy Purvis: The Scottish budget is for one year. Everything else is for the Christie commission, which will consider the configuration of public services—I assume that SEPA will be part of that. How can the Government give cost estimates until well into the next parliamentary session for agencies that might be reformed or abolished or whose responsibilities might be transferred, when the Scottish budget does not allow that?

Neil Ritchie: The costs that are set out are the resource costs that will be associated with implementing ministers' intentions for the bill. If the public sector landscape changes as a consequence of work such as the Christie commission, we will factor that into who takes responsibility. We have estimated the costs of implementing the bill. In future spending reviews and budgets, we would seek to negotiate for that resource to support our objectives.

Jeremy Purvis: Why has the bill been introduced now, given the Government's on-going and long-term cost estimates?

16:00

Neil Ritchie: The financial memorandum was drafted before we saw the UK spending review. Ministers took decisions on how budgets would be developed in those terms. It is not unusual, particularly with primary legislation, to have to identify costs across a number of spending review periods.

Jeremy Purvis: I do not want to labour the point, but that cannot be the case. Costs are predicated on the way in which SEPA, the local authorities and Scottish Water are structured. If those bodies changed, the figures would be radically different.

Neil Ritchie: We accept that these are the best estimates that we are able to produce at this time. If there are changes in the landscape, there will, hopefully, be scope for efficiencies, but if there were changes in costs, we would need to negotiate that in future spending reviews. These are the best cost estimates that we have available at this time.

Jeremy Purvis: Scottish Water has said about the costings that

"the margin of error is in the region of 20%".

That is one hell of a margin of error. How do you explain the revised Scottish Water figures, which represent a radical change in the estimated costs on that body? As Scottish Water says, its source of income is the bill payer.

Judith Tracey: The margin of error on all the costs in the financial memorandum is very much dependent on the number of reservoirs that come under the auspices of the bill and on the number of reservoirs that are identified as being high risk. Those are variable factors in the bill. The fact that we do not know the number of reservoirs that are between 10,000m³ and 25,000m³ is one reason for bringing forward the bill.

Tom McCabe: My question is along similar lines. Given the time for which we have had all these resources, I am a bit surprised that we do not have that information, but if that is the case, that is the case.

I turn to an issue that is raised in the West Lothian Council submission. Let us say that SEPA, operating on the precautionary principle, finds a greater number of high-risk reservoirs in West Lothian. Given that, as I understand it from the submission, SEPA will be the regulator but the local authority will remain the owner, am I right in thinking that, if SEPA takes the precautionary approach in those circumstances, it could ratchet up costs for the local authority?

Judith Tracey: If a local authority has newly identified reservoirs of between 10,000m³ and 25,000m³, and those reservoirs are identified as being high risk, the authority's costs could increase. At the same time, if any reservoir that it currently regulates is identified as being low risk, its costs could go down. There is a balance between the two in the legislation.

Tom McCabe: I assume that local authorities are entitled to be cautious. Frankly, SEPA does not have a very good reputation when it comes to worrying about other people's costs. An authority could easily find itself on the wrong end of SEPA's exuberance.

Judith Tracey: A reservoir will be regulated only if its volume is proved to be over 10,000m³. The Institution of Civil Engineers has identified that that size of reservoir is the level at which an escape of water would cause a risk to life or property. If a local authority has a reservoir in its area that is a risk to life and property, the reservoir has to be regulated properly.

Tom McCabe: Is all this predicated on the fact that reservoirs are not regulated properly at the moment?

Judith Tracey: Yes, it is. We do not know where all the reservoirs between 10,000m³ and 25,000m³ are in Scotland. They are not currently regulated, and we do not know whether all of them are well looked after and maintained. In the past, there have been incidents at reservoirs that are less than 25,000m³. For example, there was a fairly major incident at the Maich reservoir that had the potential to cause a lot of damage to property, close a main road and cause loss of life. It was at severe risk of breach, and it was not being regulated under the current regulation. There have been a few such incidents across the country that have made us realise that we need to find out where the reservoirs are and ensure that they are properly looked after.

Tom McCabe: Do all the reservoirs contribute to the public water supply?

Judith Tracey: No.

Jeremy Purvis: The committee has been provided with the information that Scottish Water owns or manages more than 300 reservoirs, and there is an assumption that 140 of them—nearly half—will be categorised as high risk. How could that possibly be the case?

Judith Tracey: That is based on the current categorisation of the reservoirs that Scottish Water owns. Reservoirs are categorised by the Environment Agency as being A, B, C or D, with A being high risk. The figure in the financial memorandum is based on the number of high-risk reservoirs that Scottish Water owns. Scottish Water owns a disproportionately high number of high-risk reservoirs because they are part of the public water supply, and many of the reservoirs are up stream of major conurbations.

Jeremy Purvis: Given that two major ones are in my constituency, I find that alarming.

The budget for SEPA for the coming year shows a £4.9 million reduction from £44.3 million to £39.4 million, but the additional costs to SEPA up to 2016 for implementation of the bill are £4.12 million. Is this new legislation the right priority when SEPA's budget is already being reduced? Is funding for the bill not predicated on considerably higher charges to the users that SEPA regulates?

Neil Ritchie: Ministers identified the need for the Reservoirs (Scotland) Bill in order to recognise the impact that a reservoir collapse could have on communities across Scotland. Ministers will appear before the Rural Affairs and Environment Committee—next week, I think—when they will discuss with the committee their priorities in the current settlement for the allocation in the rural affairs and environment portfolio.

Jeremy Purvis: But, as far as you are concerned, no element of SEPA's budget will be cut to pay for the implementation of the bill. In the coming year, its budget is being reduced by £5 million.

Neil Ritchie: We are working closely with SEPA to develop the legislation. Significant costs are not expected from much of the work in the next financial year; as we discussed earlier, most of the costs that accrue to SEPA are in later years. We are working closely with SEPA to ensure that it understands ministers' priorities and that we are able to use the resource to protect the people of Scotland.

I do not know whether Ross Scott wants to add something from the finance portfolio perspective.

Ross Scott (Scottish Government Finance Directorate): SEPA is undergoing a major organisational restructuring, and savings are coming out of that. It recognises that its budget is being cut, and it is restructuring to accommodate that. As Neil Ritchie has said, the directorate is working with SEPA on forward work plans, and one can only assume that the requirements of the bill are built into the restructuring.

The Convener: Final question to Linda Fabiani.

Linda Fabiani: In at last.

The Convener: Be grateful!

Linda Fabiani: Most of what I was going to ask has been covered by my colleagues interrupting at every opportunity. However, what I have picked up from answers to the questions from Tom McCabe and Jeremy Purvis is quite alarming. I have read the information and listened to your answers, and I have recently discussed the issue with a retired civil engineer who is involved in some reservoir work. Am I right in thinking that the reservoirs in Scotland have never been mapped? That would seem to be backed up by Judith Tracey's comment that we do not know where they all are. I find that really peculiar.

Judith Tracey: We know where all the reservoirs over 25,000m^3 are but not where all the reservoirs of less than that volume are. Big companies such as Scottish Water and Scottish and Southern Energy will know where their reservoirs are but, because they have never been required to be regulated, there has never been any reason to map them.

Linda Fabiani: That information has never been held centrally.

Judith Tracey: No, not on anything less than 25,000m^3.

Linda Fabiani: You said that the reservoirs under Scottish Water are for the public water supply. How are the other reservoirs—the ones you know about, that is—used?

Judith Tracey: Reservoirs are used for all sorts of things including recreation, boating and so on. One concern—and, indeed, one of the reasons for introducing the bill—is that certain bodies of water are thought of not as reservoirs but as local lochs; in fact, they are impounded and, unless the impoundment is properly maintained, there could be a risk.

Linda Fabiani: People could be quite blithely sailing, fishing and swimming in reservoirs that might in fact be high risk.

Judith Tracey: They could be high risk, but it is all relative. The actual risk of a major reservoir breach is quite low, but the consequences of such an event could be very major.

Linda Fabiani: I do not know your background or how long you have been involved in this aspect of government, so I do not know whether you can answer this question. Why has this never been done before and why is it now seen as urgent?

Judith Tracey: UK reservoirs legislation has evolved over a long time. The first piece of legislation was introduced back in the 1930s after a series of reservoir breaches that led to a number of fatalities. The legislation has improved gradually and, as our understanding of the risks posed by reservoirs has grown and as we have become a more populous country with larger urban settlements, we have begun to look at whether we need to take account of reservoirs with smaller volumes of water than the 25,000m^3 that is set out in the 1975 act. There have also been a number of potential incidents at reservoirs, including the event at the Maich that I mentioned earlier, and we should recall what happened to the reservoir in Hungary. Although in this country we do not have reservoirs that holds hundreds of thousands of cubic metres of toxic sludge—

Jeremy Purvis: Or at least none that we know of.

Judith Tracey: Well, the incident showed the damage that could occur if there were a catastrophic breach and that amount of liquid, whether toxic or not, were released.

Linda Fabiani: And the last piece of legislation was passed in 1975.

Judith Tracey: That was the last in Scotland. Some aspects of the act were updated in England and Wales in, I think, 2002 and, although those updates were replicated in the Flood Risk Management (Scotland) Act 200,9 those provisions have not yet been commenced and, in fact, have been subsumed into this updating legislation.

Linda Fabiani: You will be glad to know, convener, that my final question is directly related to what we should be talking about. Given that level of uncertainty and the lack of any previous mapping or collating of information, what comfort can you give us about the bill's potential overall costs, as noted in the financial memorandum?

Judith Tracey: We are comfortable with the figures in the memorandum. At the moment, we are carrying out a desk-based exercise to get a better idea of the number of reservoirs in Scotland, but the process has proved to be longer and more complicated than we had originally anticipated. You can ask the poor member of my team who has had to do the work about it, if you like, but it will give us a much better idea of the bodies of water.

So far, the results are in line with what we were expecting. The number of bodies of water that we are identifying through the geographical information system exercise are higher than the number we expect to have at the end because we will cross-refer them against every body of water with an impoundment licence under the Water Environment (Controlled Activities) (Scotland) Regulations 2005. That should give us a better idea of the number of reservoirs across Scotland.

Linda Fabiani: Thank you. I was unprepared for how interesting this item would be.

The Convener: The questions appear to have ceased but it is quite obvious that the more successful you are in your work, the safer our environment will be. The committee might not be all that keen on spending in general, but we are very keen on preventative spending and the bill will clearly improve the safety and security of reservoirs across Scotland. We wish you well in your work.

Do you have any final comments?

Judith Tracey: No.

The Convener: In that case, I thank you for attending the meeting and giving your evidence.

Decision on Taking Business in Private

16:15

The Convener: Item 7 is to decide whether to consider our draft report on the financial memorandum to the Reservoirs (Scotland) Bill in private at a future meeting. I suggest that we do so. Are members agreed?

Members *indicated agreement.*

Subordinate Legislation

National Health Service (Superannuation Scheme, Pension Scheme, Injury Benefits and Additional Voluntary Contributions) (Scotland) Amendment (No 2) Regulations 2010 (SSI 2010/369)

16:15

The Convener: Finally, members will recall that, last week, Jeremy Purvis raised a number of questions about the financial implications of this Scottish statutory instrument. The Scottish Government’s response has been circulated by e-mail and included in the papers for this meeting. On the basis of the response, are members content simply to note these amendment regulations?

Members *indicated agreement.*

Meeting closed at 16:16.

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