FI/01/5/A

The Scottish Parliament

FINANCE COMMITTEE

AGENDA

5th Meeting, 2001 (Session 1)

Tuesday 27 February 2001

The Committee will meet at 10.00 am in the Chamber, Assembly Hall, the Mound, Edinburgh to consider the following agenda items:

1. **Committee Business:** The Committee will consider whether to take agenda items 2 and 8 in private.

2. **Inquiry into Resource Accounting and Budgeting:** The Committee will consider its lines of questioning at agenda item 3.

3. **Inquiry into Resource Accounting and Budgeting:** The Committee will take evidence from Dr Peter Collings, Principal Finance Officer, Scottish Executive.

4. **Future Inquiries:** The Committee will consider an options paper for future inquiries.

5. **Housing (Scotland) Bill:** The Committee will consider the response of the Minister for Social Justice to the letter from the Convener regarding the financial implications of the Housing (Scotland) Bill.

6. **Financial Provisions in Bills:** The Committee will consider a paper from the Clerk.

7. **Reporter on Scottish Parliament Building:** The Committee will consider the appointment of a new Reporter.

8. **2002/03 Budget Process:** The Committee will consider a paper from the Clerk.

Callum Thomson
Clerk to the Committee
Room G.6, Committee Chambers
Tel. 0131 348 5215
Email: callum.thomson@scottish.parliament.uk

The papers for this meeting are:

Agenda Items 2 and 3	
Paper from Professor Irvine Lapsley	PRIVATE PAPER
Agenda Item 4	
Paper from SPICe	FI/01/5/1 *(previously issued for Meeting 4, 2001)*
Paper from Donald Gorrie MSP	FI/01/5/2
Agenda Item 5	
Letter from Mike Watson MSP, Convener	FI/01/5/3
Letter from Jackie Baillie MSP, Minister for Social Justice	FI/01/5/4
Members are reminded to bring copies of the Housing (Scotland) Bill; policy memorandum and accompanying documents.	
Agenda Item 6	
Paper from the Clerk	FI/01/5/5
Agenda Item 7	
Letter from Paul Grice, Clerk and Chief Executive of the Scottish Parliament	FI/01/5/6
Agenda Item 8	
Paper from the Clerk	PRIVATE PAPER

FINANCE COMMITTEE INQUIRY TOPICS

At its meeting on 30 January, the Committee agreed to consider potential topics for an Inquiry, following completion of the current RAB Inquiry. This paper expands upon the suggestions raised by Members and proposes likely issues and timescales. The topics which are listed below have been mentioned at previous meetings of the Committee. Members are, of course, welcome to propose alternative suggestions.

In considering a future inquiry, members are reminded to take account of the Committee's commitments as part of the budget process. Once a topic has been identified and agreed the committee will be invited to agree a detailed remit; a suggested structure for the Inquiry; and potential sources of written and oral evidence.

1. Tax varying powers

This topic was first proposed to the Committee at its meeting on 14 December 1999. At the time, the Committee decided not to prioritise examining the issue.

Should Members decide that it is now appropriate to do so, the following are suggested as possible areas for investigation:

- What level of income would be generated (or lost) by the exercise of the tax varying power?
- What steps have been taken by the Inland Revenue in preparation for the possibility of it being invoked?
- For what purpose might the power be most appropriately utilised? Would funding be raised for specific purposes or simply to augment the total Scottish Budget?
- Could it be raised/reduced for only a short period of time?
- Are there difficulties in applying the relevant provisions in The Scotland Act, for example the practical definition of a "Scottish Taxpayer"?
- How prepared are Scottish/UK businesses for its application, for example in terms of payroll compliance?

Clearly, a full examination of this would require oral and written evidence (e.g. from the Executive, HM Treasury, Inland Revenue, private sector companies and analysts, and academic and selected media commentators). There are several options for analysing revenues to be raised and any concomitant effects on the Scottish economy. These may include as appropriate a combination of in-house resources and external research.

Suggested timescale: 4 months[1]

[1] Timescale assumes fortnightly meetings.

2. The Barnett Formula

The UK Government has committed itself to the continued use of the Barnett Formula to allocate changes in expenditure to the devolved administrations. However, several committee members have in the past (e.g. 14 December 1999 and 1 February 2000) suggested that a re-examination of the issue by the Finance Committee may be appropriate, given the emergence of potentially relevant issues.

It is suggested that there may be two main elements to such an Inquiry: the current formula, and assessment of needs.

Understanding the current formula

Barnett only applies to **changes** in expenditure, and does not determine the overall level of funding.

- Is the Barnett Formula an appropriate mechanism for allocating changes in expenditure?
- Barnett only applies to the Departmental Expenditure Limit. What elements of the Scottish budget have in the past been “non-Barnetted” and what are the reasons for this?
- What are the processes by which decisions on “comparability” are reached?
- How transparent are the current arrangements?
- What are the reasons for the higher per-head expenditure in Scotland?
- What is the evidence of recent trends in Scottish spending relative to England, since the Formula was first recalibrated in 1992?
- How might this change over the next few years?
- How would Barnett be revised or replaced?

Scotland’s expenditure needs

Barnett is not a needs assessment formula and takes no account of relative need between Scotland and England. It simply redistributes resources according to population. However, there has been debate in recent years over the need for a needs assessment (e.g. as recommended by the House of Commons Treasury Committee 1997). The Committee may wish to examine existing evidence of need in Scotland and compare it with current funding levels.

Resources: Oral and written evidence (Scottish Executive, Scotland Office, HM Treasury, National Assembly for Wales, Northern Ireland, academic specialists).

Suggested timescale: 6 months

3. Private Finance Initiative/Public Private Partnerships

This has also been previously suggested as a possible Inquiry topic. Members then expressed concern that this is a potentially large Inquiry to which a considerable period of time should be allocated.

Possible areas for examination are:

- Is PFI/PPP the most appropriate form of funding capital projects?
- Does PFI/PPP offer value for money?
- What are the long-term implications for revenue budgets?
- What problems have been experienced since the introduction of this approach (e.g. accuracy of outline business cases). Is there evidence that initial difficulties are being addressed?
- Thus far, how robust have the procurement processes been?
- Is there enough expertise in the public sector to enable it to be an “intelligent client”?
- What has been the experience of staff involved in PFI projects?
- What are the issues surrounding provision of information on PFI/PPP projects?
- Does it ensure quality of service delivery?
- What are the experiences of risk transfer?
- What is the private sector experience of involvement in PFI projects?
- What are the alternatives to funding public sector capital investment?

Resources: The approach would be similar to other proposed Inquiries, involving the taking of written evidence and examining witnesses. Because of the potential wide-ranging nature of this Inquiry, it may be appropriate to appoint an adviser (possibly at an early stage to assist in defining the Inquiry’s remit). Alternatively, there may be some aspects that could involve applying for a project from the external research budget.

Suggested timescale: 6 months

Scottish Parliament Information Centre
8 February 2001

Memo

Date: 14 February 2001

To: Members of the Finance Committee

From: Donald Gorrie

Re: **Funding of Voluntary Sector**

I would like to propose that the Finance Committee should conduct a review of the funding of the Voluntary Sector.

Voluntary organisations - national and local - play a huge part in Scottish community life.

For many the funding of their core activity has been cut in most years for the past two decades through cuts in local government expenditure or central government grants. Some have benefited temporarily from lottery or European or charitable funding.

The problems facing voluntary organisations are:

1. Uncertainty about Funding

Often they do not know whether they will have any money to pay the wages or the rent in a few weeks' time. 3-year guarantees of future funding would enable the voluntary organisations to operate far more efficiently.

2. Inadequate Core Funding

Most voluntary organisations have faced annual cuts in core funding. In order to survive and fill the gap in their budget the paid staff and volunteers in many voluntary organisations have to spend a lot of time trying to raise funds in various ways instead of doing the work which they are good at and which benefits the local community. Others have to reduce the services they provide to the community or give up altogether.

DONALD GORRIE MSP, CENTRAL SCOTLAND
Scottish Parliament, Edinburgh EH99 1SP
Ph: 0131 348 5795 Fax: 0131 348 5963
email: Donald.Gorrie.msp@scottish.parliament.uk

3. Funding for a Limited Period

While funding for 3 years for a particular project by the lottery, European funds, charitable funds or national or local government is usually welcome and starts up some good work, it creates dire problems when the funding is coming towards its end. Unless continuing funding can be found from hard-pressed council or health board or other budgets, a popular local service has to be closed down or drastically reduced just when it has established itself. Good relations, for example, with young people or pensioners or people needing advice built up over 3 years are destroyed. Skill, experience and knowledge built up by staff and volunteers are dissipated.

4. Knowing how to get Funding

Many of the less sophisticated small local voluntary groups do not apply for council or charitable grants, which they might well get, because they do not know their way about the system. To them the sources of money are complex and obscure.

5. Waste of Time Spent Writing Applications for Grants

Those voluntary groups which do understand the system spend a lot of staff time, which could be used more constructively, in trawling through lists of charitable trusts and studying the latest EU or UK or Scottish funds and programmes and then trying to relate their activities to the fund they are targeting. It must be possible to arrange a more coherent way of applying for and allocating grants.

<u>Some examples of suggested practical steps to improve the system are:</u>

a) national fund to provide additional core funding to voluntary organisations administered locally by a committee composed half of councillors and council officials and half of representatives elected by the voluntary organisations in the area, possibly using the local Council of Voluntary Service as an umbrella.

b) central local government being less prescriptive in the strings attached to their funding, so long as the voluntary organisation meets reasonable demands for delivering a worthwhile service.

c) enabling voluntary organisations to become part of the overall national training and qualifications enterprise, so that the volunteers can accumulate SVQs and build up a CV if they wish to move on to paid employment. This would recognise the skills and knowledge gained by volunteers and give them added value and provide some funds for the organisation.

d) build up a system to carry on the funding of groups who have had short term funding from the lottery, a charity, or whatever, by assessing the value of the project, how it fits into the overall provision in the area and from what fund it should be supported in future.

END

DONALD GORRIE MSP, CENTRAL SCOTLAND
Scottish Parliament, Edinburgh EH99 1SP
Ph: 0131 348 5795 Fax: 0131 348 5963
email: Donald.Gorrie.msp@scottish.parliament.uk

Finance Committee
Convener: Mike Watson MSP

Jackie Baillie MSP
Minister for Social Justice
Scottish Executive
Victoria Quay
Edinburgh
EH6 6QQ

February 2001

Housing (Scotland) Bill

Under Standing Orders Rule 9.12.5, the Finance Committee is required to prepare a report on the provisions of a Bill which either (1) introduce new, or increase existing, expenditure charged on or payable out of the Scottish Consolidated Fund or (2) impose or increase, or confer a power to impose or increase, any tax or charge, or otherwise requires any payment to be made.

The Finance Committee considered the above-mentioned Bill on 6 February 2001 and was not content with the terms of the financial memorandum which accompanied the Bill. This memorandum does not set out the best estimates of the administrative, compliance and other costs to which the provisions of the Bill would give rise.

The Committee recognises that the Bill is primarily enabling legislation and the costs of the Bill cannot be fully known until the Bill is implemented. Nonetheless, the Committee considers that it should be possible to give a more definite indication of the likely cost of the provisions which are contained in this Bill. The Committee therefore wishes to receive an indication of the upper and lower cost estimates associated with this Bill. This analysis should be accompanied by an explanation of the assumptions used to inform these figures.

The Committee intends to consider the Bill again on 27 February 2001 and I should therefore be grateful if you could respond by 22 February 2001.

CONVENER

Mike Watson MSP
Room 4.6 PHQ
Scottish Parliament
Edinburgh EH99 1SP

SCOTTISH EXECUTIVE

Minister for Social Justice
Jackie Baillie MSP

Victoria Quay
Edinburgh EH6 6QQ

Telephone: 0131-556 8400
scottish.ministers@scotland.gsi.gov.uk
http://www.scotland.gov.uk

Mike Watson MSP
Convener, Finance Committee
Room 4.6 PHQ
Scottish Parliament
Edinburgh
EH99 1SP

23 February 2001

Thank you for your letter of 13 February about the financial implications of the Housing (Scotland) Bill.

As you recognise in your letter, much of the Bill is enabling legislation which does not of itself impose significant direct costs. It is also difficult in many cases to separate out the costs (and benefits) of particular elements of the Bill from the more general process of change in housing in Scotland. However, I attach an Annex which details the various elements of the Bill and assesses as far as possible at this stage the costs likely to be associated with them.

I hope you and Committee members find this additional information helpful when you consider the Bill further next week.

JACKIE BAILLIE

ANNEX

HOUSING (SCOTLAND) BILL: COST IMPLICATIONS

Part 1 - Homelessness and Allocation of Housing

1. Sections 1 to 6 of the Bill contain a range of measures aimed at preventing and alleviating homelessness, including a new duty on local authorities to produce homelessness strategies. The Scottish Executive recognises that these measures, by ensuring a substantial increase in the level of support to be made available to homeless people, will have significant resource implications, in particular through the potential costs arising from increased demand for temporary accommodation and from improvements on the current availability and funding of advice and information about homelessness.

2. Establishing a minimum package of support, including access to temporary accommodation, to homeless people not in priority need will mean that a significant number of people will now be entitled to temporary accommodation who are currently only entitled to advice and assistance. In 1998/99, around 13,500 homeless applications resulted in the applicant being assessed as not being in priority need. However, the vast majority of these applicants, although not formally entitled to accommodation, will have been accommodated in some way (e.g. in a hostel).

3. Some of the additional costs from the homelessness provisions in the Bill will be capital costs, particularly in relation to the provision of additional temporary accommodation, and these additional costs will be highest in the initial years. In evidence to the Social Justice Committee, COSLA noted that the cost of provision of such accommodation will vary across the country and cannot yet be accurately predicted. Other costs will be revenue costs which will tend to be longer term. The Executive has provided for the increased costs by making available a total of £27 million over the next three years (£3/12/12 million) to cover the homelessness elements of the Bill. This is likely to reflect the maximum additional cost.

4. Sections 7-8 of the Bill make provision for admittance to housing lists and for the allocation of housing. As social landlords generally already hold waiting lists, it is reasonable to assume that any additional costs are likely to be relatively marginal.

Part 2 – Tenants of Social Landlords

5. Part 2 of the Bill introduces new tenancy arrangements for tenants of social landlords. Sections 9-35 are primarily concerned with the introduction of the new Scottish secure tenancy (SST) and with the statutory elements to be included in it. The main cost elements to these provisions are likely to be in respect of the costs (a) of changing the tenancy agreement and (b) of additional elements within the tenancy agreements.

Cost of changing a tenancy

6. There are currently around 610,000 tenants of local authorities and Scottish Homes and 120,000 tenants of housing associations. Each of these tenants will become subject to the new minimum statutory provisions of the SST set out in the Bill when those provisions are commenced. The act of bringing the new statutory provisions into force will not of itself require additional expenditure, although in practice there will need to be an extensive

programme of information and explanation. The Executive intends to provide support to landlords in this through the provision of publicity information etc.

7. In addition, each tenant will be entitled to an individual signed tenancy agreement, incorporating additional contractual terms. Landlords will therefore need to embark on a programme of "signing-up" individual tenants. How landlords choose to do this will be largely for them - if they decide that all existing tenants should be signed up to the new agreements over a short period of time, the costs in staff time could be significant. However, if the conversion process is spread over a longer period, the additional workload could be managed alongside other activities as part of the landlord's mainstream business and the costs for most landlords would be more easily absorbed.

8. Estimates of the overall costs therefore vary considerably. At the lower end of the spectrum, the cost could be around £5 per tenancy, giving a total one-off cost to the social rented sector of around £3.5m. At the upper end of the spectrum, COSLA have suggested that the cost could be as high as around £16 per tenancy, giving a total one-off figure of around £11.5m. These overall figures are however subject to considerable variation for individual landlords, depending on the size, nature and location of their stock and on the demographic and other composition of their tenants. The Executive has given a commitment that it will prepare a model SST agreement, and that it will introduce the statutory new tenancy terms in a way and to a timescale which seeks to minimise the burden on landlords. The Executive is currently discussing implementation arrangements in more detail with landlord organisations, and these figures may be refined as a consequence.

Cost of specific items in a tenancy agreement

9. The additional costs arising from the specific elements of the tenancy are difficult to quantify. Much will depend on what already exists and, because the new tenancy takes the existing secure tenancy (held by the vast majority of the 720,000 tenants in the social rented sector) as its starting point, for local authorities in particular the new provisions should give rise to only limited additional costs. Many RSLs already offer the majority of the new provisions as a matter of good practice, and for them too the additional costs should be marginal.

Right To Buy

10. Sections 36-44 of the Bill modernise tenants' Right to Buy as part of the SST. There has been significant discussion about the impact of the Right to Buy, but the overall net cost impact should be limited.

11. Initially there will be no change. Current tenants will continue to enjoy the RTB under the existing terms, with the delayed extension of up to 10 years for newly eligible HA tenants and the change in the qualifying period from 2 to 5 years ensuring that any measurable impact will be some way off. Over time, from then on, the introduction of the modernised terms will reduce demand for the right to buy. *Evolving the Right to Buy*, published by the Scottish Executive last year, estimated that over 21 years sales would be some 30,000 (11-13%) less than they would otherwise have been. That estimate does not take account of the proposals in the Bill for pressured area designations or for the ten year exemption for RSLs.

12. Lower discounts leading to fewer sales will affect the income which local authorities receive from RTB sales. However, any reduction will be compensated by the increase in the level of receipts per property as a consequence of these lower discounts. Additionally, while the unit cost of processing RTB sales will remain broadly constant, the decline in the level of sales could lead to some administrative savings for local authorities. Against this, administration of additional RTB sales will, in due course, be an additional charge for RSLs.

Pressured areas

13. The Bill includes provision for areas to be designated as areas of social housing pressure, where new tenants will be unable to exercise the Right to Buy. The administration costs at the local authority level will entirely depend upon the level of interest generated. However, work on pressured areas will, in time, be part of councils' strategic housing plans, which should keep costs to a minimum. The cost of appraising submissions by the Executive should also be de minimis.

14. Within designated pressured areas it will be open for local authorities to offer cash incentives to tenants to enable them to move out of social rented accommodation in the area. The costs of this will depend upon many factors, including the number of applications, approvals, etc, which we cannot yet determine. Modelling by Scottish Homes has suggested that the cost of introducing such support in pressured areas could vary from £1-2m to £6-7m p.a. depending on assumptions about the extent of the designations and the uptake of the incentives.

Financial viability impacts on RSLs

15. The Bill extends the Right To Buy to around 35% of tenants of RSLs, and the implications of this for RSLs is still a matter of debate. The Right to Buy Sub-group on Financial Viability is considering this in detail although the Executive believes that with the additional protection offered in the Bill the financial impact of extending Right to Buy to associations will not, in most cases, threaten the financial viability of associations either at the point of implementation or subsequently. The Bill includes provision to exempt RSLs from the Right to Buy for 10 years to take account of any viability issues, and if there are still financial viability issues at that point the Bill enables the exemption to be extended for up to a further 10 years.

Tenant participation

16. Sections 45-48 of the Bill provide new arrangements for increasing tenant participation, both by individual tenants and by tenants' groups. There is already a great deal of good practice in this area, but in some cases the new proposals will require significant effort by landlords to ensure that effective strategies and policies are in place, particularly in the initial years.

17. Given the patchy nature of the practice it is impossible to place an accurate figure on the additional costs. However, in recognition that there will be some such costs the Executive is providing an additional £4.5 million over three years (£0.5/2/2 million). The initial £0.5 million will be used in this financial year for an audit of landlords' current practice in this area. This will help to identify more precisely the resources needed in subsequent years to build capacity amongst councils and RSLs to develop successful strategies and practices in

this area. This investment should go a long way to meeting the setting up costs for landlords, and it is not envisaged that ongoing running costs will be especially high, though this will vary from landlord to landlord.

Part 3 – Regulation of Social Landlords

18. Sections 49-74 establish a new single regulatory framework for social landlords. This will include primarily the activities of RSLs; local authorities' housing management functions; and the homelessness duties of local authorities and RSLs. Scottish Homes are currently working with CoSLA, the Scottish Federation of Housing Associations, Audit Scotland and the Executive to determine how the new regulatory regime will be applied in detail. Until this work is complete we are unable to quantify precisely the resource implications for either the new Executive Agency or local authorities. For local authorities, eventual costs will anyway vary according to how well they already perform against the standards yet to be set by Scottish Ministers following consultation. There will be some additional costs from providing information etc to the new executive agency, but much of this information is already being made available to bodies such as the Executive and the Accounts Commission. The Executive Agency will see an increase in costs arising from the extension of the regulatory role to the 32 local authorities. Preliminary estimates suggests that this might be around £0.6m but much will depend on the final nature of the regime.

Part 4 – Scottish Homes

19. The Bill provides (sections 75-78) for the dissolution of Scottish Homes as an NDPB and the transfer of functions to Scottish Ministers. In practice, many of these functions will be undertaken by a new executive agency, although some will transfer over time to local authorities. There may be some one-off costs associated with the change in status, but the expectation is that these will largely be contained within Scottish Homes existing management budget (£26m in 2000/01). The transfer of other functions to and from the agency (eg development funding, Social Inclusion Partnerships, etc) will be financially neutral in public expenditure terms.

Part 5 – Strategic Role of Local Authorities

20. Sections 79-84 of the Bill make provision for a more strategic role for local authorities. The three main elements are the development of local housing strategies, the administration of development funding and the development of housing support services.

Cost of developing local housing strategies and administering development funding

21. The Bill places new responsibilities on local authorities to develop local housing strategies for their areas. Guidance on local housing strategies is being developed, and costs will vary considerably according to the size and nature of the individual authority. However a very approximate assessment suggests an overall cost to the 32 local authorities of up to £2m. Given that most authorities already have a strategy/planning capability, particularly in the larger/urban areas, and that there will be continuing support available from the new executive agency, the *additional* costs will be significantly less than this.

22. The Bill also provides a framework under which responsibility for administering development funding can transfer from Scottish Homes or the new executive agency to local

authorities. The Bill does not however require this transfer, and the costs of administering the funding will be one factor which local authorities will need to take into account when considering applying to take on the additional responsibility. As with the costs of producing local housing strategies, these costs could vary significantly between local authorities. However, for comparison purposes, the current cost of administering development funding by Scottish Homes' 5 regions is just over £8 million p.a..

Supporting People

23. The Executive has agreed to allocate £2m in 2001/02, £5m in 2002/03 and £8m in 2003/04 to local authorities, primarily to assist them to set up and run new administrative structures required to enable them to implement and subsequently administer arrangements for the provision of housing support services which will come into operation in April 2003. The total amount over the 3 year period is based on calculations and assumptions which apply across Great Britain.

Part 6 – Grants for Improvement, Repairs etc

24. Sections 85-94 of the Bill make some reforms to the system of improvement and repairs grants made available by local authorities for privately-owned properties. The new arrangements are unlikely of themselves to affect the overall level of resources which local authorities decide to allocate to this system, although they will help to ensure that those resources are focused on those most in need. There may be some small additional administration costs arising from the introduction of the test of resources, but many authorities already exercise their own local arrangements in any case. The Executive aims to minimise any additional burden by providing computer-guided assessment programmes. (This is likely to cost between £20,000 and £50,000).

Scottish Executive
February 2001

Financial Resolutions Update Paper

Background

A working group of Parliament and Executive officials has been looking at the operation of standing orders relating to financial resolutions for Bills. The intention is for the group to report back to the Procedures Committee (for its meeting on 6 March 2001) with proposals for revisions to the standing orders.

Provisional Working Group Recommendations

Amongst other things, the group has considered the Finance Committee's proposal to delete Rule 9.12.5. This Rule reads as follows:

"Any Bill which contains any provisions such as are mentioned in paragraph 2 or 3 shall be referred on introduction to the Finance Committee who shall prepare a report on the provisions".

In practice, compliance with this Rule has entailed the Finance Committee considering the Financial Memorandum that accompanies a Bill and reporting to the Parliament that the Bill in question *does* contain provisions which then merited the Parliament passing a financial resolution in respect of the Bill. The Committee was clear in the view that this process was far from satisfactory and that subject committees were better placed to comment on the financial provisions of Bills as part of the Stage 1 scrutiny process. Additionally, it was thought that this task would sit well with subject committees' involvement in the annual budget process.

Following consideration by the working group, the proposal is that Rule 9.12.5 should be deleted and that Rule 9.6.3 should be revised as follows:

> In considering the general principles of the Bill and preparing its report on them, the lead committee shall take into account any views submitted by any other committee, and shall incorporate in its report any report submitted by the Subordinate Legislation Committee. ***The lead committee shall also consider and report on the Bill's Financial Memorandum and shall, in preparing its report, take into account any views submitted to it by the Finance Committee.*** If the Bill is an Executive Bill, the lead committee shall also consider and report on its Policy Memorandum.

This form of words would allow the Finance Committee to exercise its discretion as to whether it wished to look at the financial implications of Executive and Members' Bills. Should Standing Orders be changed, the committee clerk will advise members of the Finance Committee when bills are being introduced as well as the details of the respective Stage 1 timetables.

Until the Parliament has agreed to any changes in the Standing Orders, the Finance Committee will continue to consider the relevant Bills that have been introduced.

Committee Bills

Under Standing Orders, no lead committee Stage 1 report is required. The rationale behind this is that by the time that a committee Bill has been introduced, the committee in question has already reported to the Parliament setting out what provisions are to be contained in the Bill together with an explanation of the need for the Bill. The Parliament is required to agree to this proposal before the Bill can be introduced.

However the way the standing orders are currently worded means that that there is no consideration of the financial memorandum which is required to accompany the Bill. The working group is therefore proposing to recommend that the Finance Committee should be obliged (as opposed to having a discretionary power) to consider and report on committee Bills.

In the absence of a subject committee acting as the lead committee in relation to such Bills, the Finance Committee would perhaps feel less constrained in its approach than it has been where other subject committee(s) are already looking at the policy aspects. As such, the Committee would be able to carry out a more substantive scrutiny of the cost implications of the Bill (possibly by taking evidence from a member of the Committee promoting the Bill, together with the relevant Minister/ Executive officials and other interested parties).

While it is difficult to estimate the number of committee bills that will be introduced, the amount of work that is entailed in them would suggest that they are unlikely to be commonplace. The first committee Bill (from the Justice 1 Committee) is likely to be introduced in late April.

Are members content with the proposal that the Finance Committee should be obliged to consider the financial memoranda of committee bills?

Callum Thomson
23 February 2001

Nick Johnston MSP
Deputy Convener
Scottish Parliament Audit Committee
PHQ

6 February 2001

HOLYROOD PROJECT: REVIEW OF INFLATION RISK

In giving evidence to the Committee in October, I accepted comments made in the Auditor General's report about a number of risks which potentially threatened the Holyrood project budget. I assured the Committee that active risk assessment and management were – and always have been – key components of the Project Management task and that this would continue to be the case. In particular, I supported the Auditor General's view that it was not yet possible at that time to assess fully the potential impact of inflation on the budget but agreed that an analysis of a number of major packages which were due to be let in the autumn-winter period would give Project Management better information about the impact which inflation was making.

Since that time we have tendered and let all but one of the packages to which I alluded in my evidence[1] and having examined these it is appropriate that I should report to you now on the emerging trends, as was requested by the Committee. I am writing with the agreement of the Corporate Body and the Holyrood Progress Group. As I explained at the time, it is not possible to give full details of the sums committed to individual packages for reasons of commercial confidentiality but I am happy to give you the results of the tendering exercises in global terms.

The packages in question form the basement and upper structure[2] of the Chamber itself and the main towers housing Committee rooms and related administrative functions; as well as the external cladding for the MSP building. The cost plan allowance for these three packages (in 1998 prices) was £26.46m. The published indices (explained overleaf) tell us that we should expect to be paying a projected premium for inflation on top of that of £2.91m, giving a total of £29.37m. The total amount that we have committed to the three packages is £31.24m which represents an overspend from the cost plan of £4.78m. This includes a potential commitment from the contingency sum of

[1] The remaining contract referred to in evidence was the East End cladding package which is due to be tendered in mid March 2001.
[2] Although this package has been let, it contains some provisional sums and the estimated final cost is likely to exceed the current trade contract value.

£1.8m to compensate for a package which has come in over budget; the indices suggest that the rest of the disparity could be attributed to inflation.

To put these figures in context, I can give you similar global figures for the other 19 packages which have already been let. The cost plan allowance for these packages (in 1998 prices) was £18.65m. The indices project inflation at £1.23m, giving a total of £19.88m. The total commitment is £19.83m; in other words, savings made on these particular packages have slightly offset the assumed impact of inflation.

The overall picture, adding all these packages together, shows that having committed in the region of £51m, (or half the construction budget), we are currently sitting at £5.9m over the original cost-plan budget of which around £4m may be attributable to inflation. It is worth noting here that there is a contingency of just under £11m within the total budget of £195m which is not expressly designed to address inflationary pressures. However, as the Auditor General noted in his report, some or all of this sum could have been available for this purpose if it were not expended elsewhere. I should also clarify that the Project spend is comfortably within its cash allocations for this year and next and there is therefore no requirement to seek additional expenditure cover at this stage.

As Committee members will recall, the Auditor General explained in his report that the £108m construction budget was compiled from estimates based on constant March 1998 prices. The Corporate Body's report to Parliament in March 2000 stated that it was not common practice to include a separate inflation allowance in government building procurement and that the SPCB believed that this was the correct approach in relation to the Parliament building. This is indeed customary practice in public procurement projects where the total amount required for inflation cannot be known at the start of a project and it would not be good practice to make the contractor aware of any allocated notional figure being held in reserve. Budget figures quoted for such projects are therefore always exclusive of inflation. The Holyrood construction budget is consistent with this approach and therefore excludes actual and forecast building cost inflation over the life of the project.

Following the Auditor General's report, and recognising that the Parliament had not explicitly agreed that the £195m should be treated as a real terms target, the Holyrood Progress Group asked the Project's cost consultants to identify the cost of inflation on each package as a management tool. This has been done using the BCIS National All In Tender Price Index, nationally recognised and published indices which allow us to identify separately the cost of inflation. While these give a nation-wide picture, we are advised that they are as fair a representation as any of the current situation in the Edinburgh area. In addition, anecdotal evidence suggests that some of the publicity surrounding the project at an earlier stage as well as the tight timescale for completion of works may have had a negative impact on our competitiveness in the market place.

However, we are satisfied with the tender results on the MSP block where, setting aside the inflation element, all of the works packages let to date have come in on or under the original cost-plan budget. The same is true of all the other early packages as well as a number of the later ones . Nonetheless, it is now clear that inflation will have an impact on the project budget to a degree which is not yet fully quantifiable.

The Holyrood Progress Group had hoped that it might prove possible to absorb this pressure within the available budget by taking advantage of savings delivered by the tendering process. However, some of the contracts which comprise the Debating Chamber and Towers packages give us less cause for comfort than those finalised on the MSP building. In addition to the premium to be paid for inflation, it is unlikely to be possible to bring one or two of these packages back within the original cost plan budget. The Design team and Project Management are examining the detail of these as a matter of urgency, but in order to remain on programme it will be necessary to commit some of the contingency sum to compensate for construction cost overruns. This requirement makes it clear that the entire contingency will not be available to meet inflation costs, in which case further resources would be required in due course to deliver the scheme design as approved by the client in June 2000. A better estimate of the final cost of inflation will become available as the remaining major contracts are let between now and the autumn.

In the meantime, the Holyrood Progress Group and Project Management are committed to doing all they can to bring the project in on budget and the pressure being brought to bear on costs is unrelenting. The project's consultants are under clear instructions to examine every single component of the scheme for potential savings and they are under no illusion about the importance of compensating for the cost of inflation and any other cost overruns wherever possible.

I am copying this letter to the Convener of the Finance Committee to whom I also gave evidence on this matter.

PE GRICE