FINANCE COMMITTEE

AGENDA

5th Meeting, 2004 (Session 2)

Tuesday 10 February 2004

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

1. **Budget (Scotland) Bill:** The Committee will seek further information from—
   
   Tavish Scott, MSP, Deputy Minister for Finance and Public Services.
   
   Richard Dennis and Richard Wilkins, Finance and Central Services Department, Scottish Executive.

2. **Budget (Scotland) Bill:** The Committee will consider the Bill at Stage 2.

3. **Subordinate legislation:** Tavish Scott, MSP, Deputy Minister for Finance and Public Services to move (S2M-834) in the name of Andy Kerr MSP- That the Finance Committee recommends that the draft Budget (Scotland) Act 2003 Amendment Order 2004 be approved.

4. **Fire Sprinklers in Residential Premises (Scotland) Bill:** The Committee will take evidence as part of its consideration of the Bill’s Financial Memorandum from—
   
   David Bookbinder, Policy and Practice Co-ordinator, Scottish Federation of Housing Associations and Alister McDonald, Depute Chief Executive, Bield Housing Association.
   
   John Blackwood, Director, Scottish Association of Landlords.

5. **Budget Process 2005-06:** The Committee will consider a paper by the Budget Adviser on Government Expenditure and Revenue in Scotland (GERS).

6. **Scrutiny of Financial Memoranda:** The Committee will consider a paper outlining proposals to amend the procedure for the scrutiny of Financial Memoranda.

7. **Item in private:** The Committee will decide whether to consider the draft report on Scottish Water in private at its next meeting.
The papers for this meeting are:

**Agenda Items 1 and 2**

Budget (Scotland) Bill and Budget Documents

**Agenda Item 2**

Paper by the Clerk

**Agenda Item 3**

The Budget (Scotland) Act 2003 (Amendment) Order 2004 (draft) and Budget Documents

Paper by the Clerk

PRIVATE PAPER

**Agenda Item 4**

Fire Sprinklers in Residential Premises (Scotland) Bill, Policy Memorandum and Explanatory Notes

Paper by the Clerk – Written Evidence

PRIVATE PAPER

**Agenda Item 5**

Paper by the Budget Adviser

**Agenda Item 6**

Paper by the Clerk
Finance Committee

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Budget (Scotland) Bill – Stage 2

1. At its meeting of 13 January 2004, the Committee considered a paper on the procedure for handling Stage 2 of the Budget (Scotland) Bill. This paper restates the procedures laid down by standing orders to assist the Committee during its Stage 2 consideration at this meeting.

2. Many members will probably be familiar with handling Executive legislation. Budget Bills, however, fall into a category of their own and procedures relating to them are governed separately by Rule 9.16 of standing orders.

3. Unlike other legislation, where amendments can be lodged by any member, at Stage 2 of a Budget Bill, amendments can only be lodged and moved by a member of the Scottish Executive.

4. Proceedings on amendments to Budget Bills are identical to those for other Bills. Where it is the case that no amendments are lodged to the Bill, the Committee is still required to agree each section and schedule of the Bill as well as the long title. As with other Bills, where sections and schedules to which no amendments are proposed fall to be considered consecutively, a single question can be put on those sections or schedules.

5. It is worth pointing out that it is not possible leave out a section or schedule of the Bill by disagreeing to it. The Guidance on Public Bills states:

   Paragraph 4.77
   The Question on a section or schedule is only put if there is no amendment to leave out the section or schedule. In other words, any substantive decision on whether the section or schedule should remain in the Bill is taken on an amendment.

   Paragraph 4.78
   If no amendment to leave out the section or schedule has been lodged in advance, any member may lodge a manuscript amendment to leave it out. So long as such an amendment is admissible, the convener should always consent to it being taken.

6. Since the standing orders only allow amendments to a Budget Bill to be moved by a member of the Scottish Executive, Committee members would have to persuade the Minister to move a manuscript amendment to leave out the section or schedule in question. As it is unlikely that the Minister would agree to do so, the end result is that there is no alternative for the Committee but to agree to the sections and schedules. The Parliament does, of course, have the option at Stage 3 of voting down the whole Bill.

Susan Duffy
Clerk to the Committee
Finance Committee

5th Meeting 2004 – Tuesday 10 February 2004

Procedure for Considering Subordinate Legislation

Introduction
1. The Finance Committee may consider subordinate legislation which seeks to amend Budget Acts (referred to as ‘budget revisions’). These budget revisions request parliamentary authorisation for a number of in-year changes to the allocations as set out in the Budget. For these items, the Minister or Deputy Minister responsible for the instrument gives evidence to the Committee, normally accompanied by officials from the Scottish Executive’s Finance and Central Services Department. Members may find this briefing note on the procedure for the consideration of subordinate legislation helpful.

Background
2. When passing legislation, the Parliament accepts the principles of a bill but often leaves much of the detail to be filled in by subordinate (or secondary) legislation via Scottish Statutory Instruments (SSIs) at a later date. The nature and extent of the powers which are delegated to Ministers are set out in the parent Act.

3. After a SSI has been laid before the Parliament, the Parliament has 40 days to report on it. The SSI is referred to the Subordinate Legislation Committee first, for consideration of its technical and legal aspects, and then to a nominated lead committee (this is the committee within whose remit the subject matter falls) to consider the policy issues.

4. SSIs are usually considered under either affirmative or negative procedures\(^1\). The draft order before the Committee is an affirmative instrument and thus requires the approval of the Parliament by motion before it can come into force. Negative instruments, on the other hand, automatically become law unless a member proposes a motion for annulment.

Procedure
5. It is the role of the lead committee to scrutinise the draft order and decide whether to recommend its approval to the Parliament. The Minister or Deputy Minister responsible for the instrument will speak to and move the motion calling on the Committee to recommend that the order be approved. The motion recommending approval of this motion is listed below. The Committee may then question the Minister and the debate on whether to recommend approval of the instrument must last no longer than 90 minutes (Rule 10.6.3). At the conclusion of the debate, the question will be put to committee members that they recommend to the Parliament that the SSI be approved.

\(^{1}\) For further information on the procedure for examining subordinate legislation, Members are advised to consult Chapter 10 of Standing Orders.
6. The Committee will then report its decision to the Parliament. If it recommends the approval of the instrument, the Parliamentary Bureau shall, by motion, propose that the instrument be approved by the Parliament.

**Motion**
S2M-834 Mr Andy Kerr: The Draft Budget (Scotland) Act 2003 Amendment Order 2004—That the Finance Committee recommends that the draft Budget (Scotland) Act 2003 Amendment Order 2004 be approved.
Supported by: Tavish Scott

Emma Berry
February 2004
1. In order to assist the Committee in its consideration of the Financial Memorandum of the Fire Sprinklers in Residential Premises (Scotland) Bill, a written submission has been received from the following organisation:

   Scottish Federation of Housing Associations (SFHA)
   Scottish Association of Landlords (SAL)

2. The Committee is invited to consider these submissions.

Jane Sutherland
February 2004
SUBMISSION FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS (SFHA)

SFHA, as the membership body for over 200 registered housing associations in Scotland, welcomes the opportunity to submit evidence on this Bill to the Committee. We will be happy to expand on any of the points made when we give oral evidence to the Committee.

The preparation of these comments is over-shadowed by the tragic death of 14 older people in the fire at Rosepark Care Home in Uddingston on 31 January. A thorough investigation by the appropriate authorities will report on the causes of these deaths and make recommendations. It would not be helpful for anybody to jump to any conclusions about the relevance of this dreadful event to the Bill currently under consideration. The Bill, as presently worded, does not cover care homes or nursing homes.

SFHA and its member housing associations believe the safety of tenants is paramount. Any proposed legislation which enhances safety is to be welcomed. However, we have serious concerns about the Fire Sprinklers in Residential Premises (Scotland) Bill in terms of efficacy and in relation to the cost of implementation. While cost may not be the over-riding factor, it would be essential to ensure that the full resources available to implement any legislation in relation to fire sprinklers are identified and made available.

Efficacy of Sprinklers

None of the documents accompanying the Bill present any evidence that people in sheltered housing or Houses in Multiple Occupation (HMOs) are actually at greater risk from fire than people in other forms of housing.

The Bill seeks to introduce requirements for fire sprinklers through the Building Regulations. There is no distinct category in the Building Regulations that defines sheltered housing. A definition of sheltered housing is proposed in the Bill. This appears to be open to interpretation and dispute. The development of support for older people is increasingly in “ordinary” houses, to which adaptations may be made such as ramps to aid access or home alarm units to enable aid to be summoned in an emergency. There is a lack of clarity in the Bill as to when an “ordinary” house ceases to be “ordinary” and requires a fire sprinkler system to be installed. Such a lack of clarity is not the basis for good legislation.

Developments of sheltered housing are generally classified as dwellings. As such each dwelling is required to be a self-contained fire cell, with appropriate active measures to warn occupants in the event of fire and passive design features to prevent the spread of fire and to facilitate escape. Sheltered housing is not akin - either in terms of design or structure - to a care home or nursing home.

There is no clear case made as to why fire sprinklers should be introduced in sheltered housing, even if it could be clearly defined, more than in other types of housing.
Houses in multiple occupation (HMOs) are already more clearly defined in law. They are licenced by local authorities. A key part of the mandatory licencing scheme is the rigorous enforcement of extremely high fire safety standards. The current scheme was introduced in 2000 partly in response to deaths caused by a fire in an HMO. A recent review undertaken for the Scottish Executive of the first year of the mandatory licensing of HMOs found that the main impact had been in the area of fire safety. As the programme of licencing of HMOs rolls out to more properties the standards of fire safety generally are being raised. There is no evidence presented with the Bill that these measures have been ineffective.

Fire sprinklers are activated by heat. They do not assist with the suppression of smoke and fumes if the required temperature is not reached to activate them. Further evidence is needed on how many lives may be lost where a sprinkler would not have been activated because the required temperature was not reached.

The Cost of Sprinklers

SFHA believes the Bill’s Financial Memorandum greatly underestimates the likely costs associated with implementing the Bill’s provisions, especially in relation to HMOs. All current HMOs would have to install sprinklers in the months after commencement of the Act, as the Bill provides for any change of occupancy to trigger installation of a sprinkler system. Most HMOs, by nature, involve a degree of turnover, for example interim supported accommodation where people stay for a few months before moving on to more independent housing in the community.

In addition to this, the estimated cost of £1,500 to install a sprinkler system into an existing HMO is likely to be a gross underestimate. The Residential Sprinkler Association (RSA), which campaigns for the installation of sprinklers in houses, estimates the cost of installation in a new 3 bedroom dwelling at about £1,500, but at about 50% more in older dwellings. In other words, a 3 bedroom HMO could, by this estimation, expect a cost of £2,250 per installation. In existing dwellings this would be subject to VAT. Therefore, the real cost to the owner, depending on the size of the HMO, would likely be £2,500-£3,000 per installation – about double the figure used in the Financial Memorandum accompanying the Bill. Similarly, if the estimate of £800 per sheltered dwelling is accepted as accurate for new houses (and we have serious doubts about this), then installation in houses converted to sheltered housing would cost in the region of £1,200, using the RSA’s 50% uplift. This would again be subject to VAT, making the actual cost in excess of £1,400 per dwelling. Much more information is needed on the real costs of installation in existing buildings.

Whatever the capital costs, housing associations would seek to have these met through grants from Communities Scotland or local authorities. The alternative is that the costs are met from tenants’ rents. Whichever option is taken, there is a clear cost to the public purse, through either capital grants or Housing Benefit, that is not acknowledged in the Financial Memorandum.

The revenue costs of maintaining sprinkler systems would have to be passed on to tenants through their rents. Maintenance is something of an unknown quantity as there may not yet be sufficient experience to tell us how reliable sprinkler systems are and how much maintenance would be needed. We do know, though, that one
area where stringent maintenance procedures would be required is in relation to the
storage of water and the avoidance of Legionnaires disease. The additional rent
charge would again have an impact on public expenditure through housing benefit.

Conclusion

SFHA does not doubt that this is a well intended Bill, introduced with the safety of
vulnerable people at its heart. However, we do not believe that there is any evidence
presented to justify the use of sprinklers in sheltered housing, which is ill-defined, and
HMOs as opposed to other types of dwellings. We also believe that the costs in
general and the impact on public expenditure in particular have been significantly
under-estimated.

Much more work is required on the issue of residential sprinklers in terms of both
their efficacy and the costs and funding of installing them before the introduction of
legislation. We would be happy to co-operate with an appropriate investigation or
study.
SUBMISSION FROM SCOTTISH ASSOCIATION OF LANDLORDS

With regards the above Bill, our organisation has serious reservations with not only the policy aspect of such implementation but also how prohibitive the costs might be in installing and maintaining such systems.

From our research and findings gleamed from the Residential Sprinklers Association, and members operating in Scotland, we understand the initial projected cost of installation of £1,500 to be grossly underestimated. Though the explanatory notes to the Bill take cognisance of the fact that costs are directly dependant on the size of the property in question, a member of the Residential Sprinklers Association has estimated that the minimum cost of installation in a three bedroom HMO licensed property would be no less than £3,500 and the average cost being in the region of £5,000 - £7,000 per property, dependant on the number and type of sprinkler heads used.

What our Association would like to point out is that the above costs are based on the ‘basic’ sprinkler head types being used and the pipe work being exposed and not concealed under floors or up walls etc. These costs also do not take into consideration possible redecoration/plastering and the disturbance caused to existing tenants when carrying out the work.

The Scottish Association of Landlords would respectfully recommend that the Finance Committee consider these costs as being a significant deterrent to existing and new HMO License holders from applying for licensing.

It is the opinion of our Association, that the existing Licensing structure allows each Local Authority to determine, under their own licensing regime, where and where not Fire Sprinkler Systems are required and therefore feels it unnecessary to impose a blanket licensing condition on all HMO Licensed properties.

SAL would also go further and respectfully draw reference to a clear distinction being made between the risk factors in care homes or sheltered accommodation to that of private homes let to small groups of people.
Finance Committee

5th meeting 2004 - 10 February 2004

Spending Review 2004 –
Expenditure trends in Scotland since 1997: Evidence from the GERS report
Additional Paper

1. Members may have seen the coverage of this paper in the Herald. As you will see from this article, the Executive has stated that it was not accurate to look at spending over a 5 year period, as the Executive was not in existence for 2 of those years.

2. My view is that this should not make any significant difference to the trend as these were years of expenditure freeze. However, to be sure, I checked the position using the 1998-9 GERS report and the figures below show that the trend holds post-devolution. Indeed four of the five current functional priorities (education, health, roads and law and order) receive below average increases in outturn terms.

Table 4: Growth in Programme Expenditure 1998-9 to 2001-2
(exc. Social Protection)

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<thead>
<tr>
<th></th>
<th>1998-99</th>
<th>2001-02</th>
<th>% Change</th>
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</thead>
<tbody>
<tr>
<td>Education</td>
<td>£4169</td>
<td>£4992</td>
<td>+20</td>
</tr>
<tr>
<td>Health</td>
<td>£6130</td>
<td>£7266</td>
<td>+19</td>
</tr>
<tr>
<td>Roads and Transport</td>
<td>£958</td>
<td>£1159</td>
<td>+21</td>
</tr>
<tr>
<td>Housing</td>
<td>£488</td>
<td>£1151</td>
<td>+136</td>
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<tr>
<td>Other Environmental Services</td>
<td>£934</td>
<td>£1703</td>
<td>+82</td>
</tr>
<tr>
<td>Law, Order and Protective Services</td>
<td>£1428</td>
<td>£1754</td>
<td>+23</td>
</tr>
<tr>
<td>Trade and Industry etc</td>
<td>£836</td>
<td>£1225</td>
<td>+47</td>
</tr>
<tr>
<td>Culture, Media and Sport</td>
<td>£382</td>
<td>£643</td>
<td>+68</td>
</tr>
<tr>
<td>Total</td>
<td>£16341</td>
<td>£21229</td>
<td>+30</td>
</tr>
</tbody>
</table>

Professor Arthur Midwinter
Adviser to the Committee
February 2004
Finance Committee

5th meeting 2004 - Tuesday 10 February 2004


1. At its meeting on 15 December 2003, the Committee agreed that a paper should be produced on outturn data contained in the Government Expenditure and Revenue in Scotland 2001-02.

2. Known as GERS, the report attempts to provide estimates of public sector flows of expenditure and revenue for Scotland. Whilst the revenue data is based on estimates, the spending data is based on returns to the Treasury for its Public Expenditure Statistical Analyses (PESA) report. This provides information on the division of public sector expenditure on services between the four countries of the UK. The PESA statistics cover more expenditure items than those for which the devolved administrations alone are responsible, but the dominant item of UK spending is social protection. The real benefit from the data is that it is outturn-based, rather than estimates. It covers expenditure on services and excludes debt interest payments, net public service pensions and most of the accounting adjustments.

3. The first item of interest to members is Scotland’s share of identifiable expenditure. This accounts for around 80% of total public expenditure in the UK, and is defined as expenditure that has been incurred to the benefit of the population of a particular country. Social protection is by far the biggest expenditure programme, which provides cash payments to eligible recipients, accounting for around £10.2 billions of the £31.6 billions total (or 32%). Of the remaining £21.4 billion, £19.6 billion is incurred by the Executive, the major exceptions being the trade, industry, energy and employment programme; and the agriculture, fisheries, food and forestry programme.

4. The data in Section 9 of GERS shows a high degree of stability in relative shares of identifiable expenditure over the five year period. Scotland’s share remained static at 10.3%. whilst England’s grew from 80.2% to 80.4%, and Northern Ireland and Wales fell by 0.1% each, from 5.8 to 5.7% for Wales; and 3.8% to 3.7% for Northern Ireland (See Table 1).

5. Of course, population relativities changed during this period. Scotland’s share of the UK population fell from 8.6% to 8.3%. The result is that in terms of spending per capita, Scotland’s position has actually improved rising from 117.8 to 119.9 (this is an expenditure index in which UK=100).

6. This is contrary to the expectations of some analysts in recent years, who have argued that the Barnett formula would have a convergence effect in the long term across the UK. In fact, the position differs between the devolved administrations (Table 2) and Scotland’s position has diverged, England is stable, whilst Wales and Northern Ireland both show evidence of convergence. This is because the
degree of convergence in practice reflects the interaction of population change; the rate of expenditure increases; the historic baseline; and non-formulaic expenditure decisions. The system is less mechanistic than some analysts assume and Scotland’s expenditure relative to the UK continues to show the offsetting effect of relative population decline.

7. The second issue of concern to members is the changing expenditure pattern between services, which is the most recent evidence of changing priorities since 1997. The data is presented in two ways. Firstly, the changing position of expenditure on services is compared with the UK position. Secondly, the growth in spending on these services is set out in percentage terms.

8. The data is very interesting. It shows no change in spending on social protection, at 8% above the UK average, and broadly stable figures for trade, industry, energy and employment; and also for agriculture, fisheries, food and forestry – the programmes which are most influenced by UK government spending. The big changes are in programmes determined by the Executive.

9. Table 3 shows that the housing and other environmental services programmes grew significantly relative to the UK, reflecting greater priority in Scotland, whilst the other devolved programmes were broadly stable, with education, health and law and order falling relative to the UK; and roads and transport and culture, media and sport growing slightly relative to the UK. Overall, as noted earlier, total spending has grown relative to the UK, and that growth has been greater for devolved programmes.

10. If we turn now to expenditure growth, we find a similar pattern, with housing and other environmental services growing well above the average, and so too has the agriculture, fish, food and forestry programme, and the culture, media and sport programme. All other programmes, including health, education, roads and transport and law, order and protective services (current priorities) have grown by less than the Scottish average, and so too has trade and industry etc. which reflects both UK and Scottish decisions.

11. These figures show that the concern expressed by the Committee over the Executive’s inconsistent performance in funding its priorities was well-founded. Overall, public spending has grown significantly since 1997; there has been no trend to convergence, indeed Scottish spending relative to the UK has grown; there is evidence of distinctive Scottish spending priorities over housing and other environmental services; and important priority services such as health and education have received below average increases over this period.

Professor Arthur Midwinter
Adviser to the Committee
February 2004
**Table 1: Identifiable Public Expenditure in Scotland, 1997-8 to 2001-2, relative to the UK**

<table>
<thead>
<tr>
<th>Year</th>
<th>Scottish Share (%)</th>
<th>Spending per Capita (UK = 100)</th>
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</thead>
<tbody>
<tr>
<td>1997-8</td>
<td>10.3</td>
<td>117.8</td>
</tr>
<tr>
<td>1998-9</td>
<td>10.3</td>
<td>118.2</td>
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<td>1999-00</td>
<td>10.3</td>
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<tr>
<td>2001-2</td>
<td>10.3</td>
<td>119.9</td>
</tr>
</tbody>
</table>

Source: GERS Report, Tables 9.2 and 9.4

**Table 2: Identifiable Public Spending in the four countries of the UK, 1997-8 to 2001-2**

<table>
<thead>
<tr>
<th>Year</th>
<th>England % Share</th>
<th>Scotland % Share</th>
<th>Wales % Share</th>
<th>Northern Ireland % Share</th>
<th>UK % Share</th>
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<tr>
<td>1997-8</td>
<td>80.2</td>
<td>10.3</td>
<td>5.7</td>
<td>3.8</td>
<td>100</td>
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<td>2001-2</td>
<td>80.4</td>
<td>10.3</td>
<td>5.6</td>
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<td>1997-8</td>
<td>96.1</td>
<td>117.8</td>
<td>114.8</td>
<td>133.5</td>
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<td>2001-2</td>
<td>96.2</td>
<td>119.9</td>
<td>113.0</td>
<td>127.2</td>
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Source: GERS Report Tables 9.2 and 9.4

**Table 3: Expenditure on services in Scotland relative to the UK (UK = 100)**

<table>
<thead>
<tr>
<th>Service</th>
<th>1997-98</th>
<th>2001-02</th>
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<tbody>
<tr>
<td>Education</td>
<td>125</td>
<td>117</td>
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<tr>
<td>Health</td>
<td>121</td>
<td>115</td>
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<td>Roads and Transport</td>
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<td>117</td>
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<tr>
<td>Housing</td>
<td>153</td>
<td>290</td>
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<td>Other Environmental Services</td>
<td>106</td>
<td>172</td>
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<tr>
<td>Law and Order etc</td>
<td>97</td>
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<td>Trade and Industry etc</td>
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<td>Agriculture etc</td>
<td>239</td>
<td>234</td>
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<tr>
<td>Culture, Media and Sport</td>
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<td>135</td>
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<tr>
<td>Social Protection</td>
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<td>108</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>118</strong></td>
<td><strong>120</strong></td>
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Table 4: Growth in Budget Provision 1997-8 to 2001-2 (exc. Social Protection)

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<tr>
<th></th>
<th>1997-98</th>
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<tr>
<td><strong>Education</strong></td>
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<td><strong>Health</strong></td>
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<td><strong>Housing</strong></td>
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<td><strong>Other Environmental Services</strong></td>
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<td><strong>Trade and Industry etc</strong></td>
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<td><strong>Agriculture and FFF</strong></td>
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<td>+61</td>
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<tr>
<td><strong>Culture, Tourism and Sport</strong></td>
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<td>643</td>
<td>+123</td>
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<tr>
<td><strong>Total</strong></td>
<td>15241</td>
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Finance Committee

5th meeting 2004 - Tuesday 10 February 2004

Proposed Revisions to the Committee’s Scrutiny of Financial Memoranda

Background
1. At its meeting on 28 October 2003, the Finance Committee agreed that whilst it would continue to scrutinise all Financial Memoranda in the short term, it would look to review the mechanisms and options available to the Committee for financial scrutiny of Bills in the longer term. Such a review would seek to address the concerns of members that Financial Memoranda should be scrutinised while seeking to strike a balance between legislative scrutiny and scrutiny through inquiries and other Committee work in the work programme.

2. This paper sets out proposals for a new system for the Committee’s consideration. It is recognised that the Committee has raised concerns over the quality of information contained in Financial Memoranda and a paper outlining these concerns will be included for discussion at the Committee’s next meeting on 24 February 2004.

3. Detailed below is a proposed new system of scrutinising Financial Memoranda which members are invited to consider. This proposal is designed to allow the Committee to take decisions on a case by case basis.

Framework
4. It is proposed members agree a framework of consideration which the Convener and Deputy Convener can use (together with any comments from members) in deciding the appropriate level of scrutiny to be applied to any Financial Memoranda.

5. This framework indicates the main factors that could be used to determine what level of scrutiny the Finance Committee may apply to a Financial Memorandum, but does not set prescriptive ranges where a specific level of scrutiny should apply. This would enable there to be flexibility in determining the level of scrutiny according to the relative merits of the Financial Memorandum under consideration.

6. The following main factors should be considered when deciding the appropriate level of scrutiny to be applied to Financial Memoranda:
   - the total value of costs and savings in relation to the Scottish Consolidated Fund which would result from the implementation of the Bill;
   - the level of impact of the Bill on Scotland;
   - the number and type of organisations affected and the level of impact.

Process
7. Upon each Bill’s introduction to the Parliament, the Clerks would draft a brief background paper (no more than 2 pages) summarising the Financial Memorandum and its financial implications and indicating any deadlines for Stage
1 consideration which may have been agreed by the Parliamentary Bureau. This paper would be circulated, by email, to members inviting them to submit comments to the relevant Clerk (by a specified deadline) on the level of scrutiny to be applied to the Financial Memorandum.

8. The Convener and Deputy Convener would then meet informally to discuss and agree the level of scrutiny to apply to the Financial Memorandum considering both members’ comments and the agreed Framework.

9. The Convener would then formally report the level of scrutiny agreed at the next available meeting of the Finance Committee and the appropriate action would then be taken.

Levels of Scrutiny
10. It is proposed that there are 3 levels of scrutiny which the Committee could undertake and these are detailed below:

Level 1: The Finance Committee appoints a reporter to act on behalf of the Finance Committee by attending the relevant subject Committee meeting and specifically asking questions of the Minister on the Financial Memorandum.

There would be no formal report from the Finance Committee to the subject Committee at this level. All members would be given an opportunity to become reporters.

It is anticipated that this level of scrutiny would be for low impact Financial Memoranda whether that be based on financial impact, or other factors within the framework.

Level 2: The Finance Committee seeks written evidence only from organisations financially affected by the Financial Memorandum before taking oral evidence from the Executive Bill Team; the Committee would then produce a report.

This would enable organisations to raise concerns which could then be put directly to the Executive Bill Team, whilst still allowing formal scrutiny of the Financial Memorandum through questioning of the relevant Executive Bill Team.

It is anticipated that this level of scrutiny would be for medium impact Financial Memoranda whether that be based on financial impact, or other factors within the framework.

Level 3: The Finance Committee seeks written evidence from organisations financially affected before taking oral evidence from selected key organisations and the Executive Bill Team over a number of meetings, before producing a report.

This level is currently applied to all Financial Memoranda.
It is anticipated that this level of scrutiny would be for high impact Financial Memoranda whether that be based on financial impact, or other factors within the framework.

Other Legislation
11. It is not envisaged that this procedure for determining the level of scrutiny of Financial Memoranda would be applied to non Executive legislation where Financial Memoranda are produced without the direct assistance of the Scottish Executive.
12. For non Executive Financial Memoranda, it is anticipated that full Committee scrutiny (level 3) would continue to be applied.

Recommendations
13. The Committee is invited to consider the proposed new system of Scottish Executive Financial Memoranda scrutiny.

Jane Sutherland
Senior Assistant Clerk
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