



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 7 November 2012

Session 4

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**Wednesday 7 November 2012**

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**INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE**  
**19<sup>th</sup> Meeting 2012, Session 4**

**CONVENER**

\*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

**DEPUTY CONVENER**

\*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

**COMMITTEE MEMBERS**

\*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

\*Jim Eadie (Edinburgh Southern) (SNP)

\*Alex Johnstone (North East Scotland) (Con)

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Margaret McCulloch (Central Scotland) (Lab)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Sharon Fairweather (Scottish Government)

Rachel Gwyon (Scottish Government)

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities)

**CLERK TO THE COMMITTEE**

Steve Farrell

**LOCATION**

Committee Room 2



# Scottish Parliament

## Infrastructure and Capital Investment Committee

*Wednesday 7 November 2012*

[The Convener *opened the meeting at 10:00*]

### Draft Budget Scrutiny 2013-14

**The Convener (Maureen Watt):** I welcome everyone to the 19th meeting in 2012 of the Infrastructure and Capital Investment Committee, and remind all those present to turn off their mobile devices as they impact on the broadcasting system and can be quite annoying if they go off during the meeting.

The first item of business is the committee's final evidence-taking session on the draft budget for 2013-14, in which we will take evidence from the Cabinet Secretary for Infrastructure, Investment and Cities. We will cover various aspects including affordable housing, which has been the main focus of the committee's scrutiny, transport and other infrastructure.

I welcome Nicola Sturgeon on her first appearance before the committee—the first of many, I hope—and congratulate her on her new post. She will be supported today by the following Scottish Government officials: Rachel Gwyon, head of housing, sustainability and innovation finance; Janet Egdell, head of infrastructure investment policy; and Sharon Fairweather, director of finance at Transport Scotland. Do you wish to make a brief opening statement, cabinet secretary?

**The Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities (Nicola Sturgeon):** I will be very brief, convener. First of all, thank you for the welcome. I very much look forward to working with the committee. I am sure that my officials will nudge me if, through sheer force of habit, I slip into talking about the health budget instead of the budget that we are discussing this morning.

As the committee will know, the 2013-14 draft budget confirms the spending plans for the portfolio that were previously set out in the spending review. You will also know—indeed, the convener has just made it clear—that the ministerial responsibilities have changed, and my portfolio now includes the budget for welfare reform, parliamentary business and Government strategy as well as the subject areas that my predecessor covered. I also have responsibility for our cities strategy.

Everyone knows that we are facing cuts to our capital budgets and a significant focus of the Government is to find ways of boosting our capital spending such as, for example, delivering our £2.5 billion pipeline of infrastructure projects through the non-profit-distributing model, switching more than £700 million from resource budgets to support capital and supporting a range of innovative finance initiatives such as the national housing trust. Next year, we will continue to do everything possible to focus portfolio expenditure on activities that will aid our economic recovery and stimulate growth. The investment in our physical infrastructure brings obvious immediate economic benefits through supporting employment in the construction sector and its supply chains.

The convener mentioned that housing had been a key focus of the committee's scrutiny. The Government is very focused on trying to get our housing strategy right and on building high-quality homes while making a contribution to the economy. It is estimated that the £760 million investment in our three-year affordable housing supply programme from 2012-13 could generate around £3 billion of economic activity and directly and indirectly support up to 8,000 jobs a year. Since the spending review, the budget in 2013-14 has increased by almost £40 million because of the net effects of the allocation of Barnett consequential and the reduction for acceleration of existing resources from 2013-14 into 2012-13 to aid recovery.

Our investment in transport infrastructure has helped to create the best conditions for business success through the creation of a transport system that enhances productivity and connects regions and people to economic opportunity. In 2011-12, 95 per cent of Transport Scotland's £1.8 billion budget was invested back into the private sector, which supports more than 25 per cent of civil engineering contracts in Scotland and 12,000 jobs. We want that sort of performance to continue both this year and into the next.

We are determined to use our transport budget to help with the transition to a low-carbon economy through investment in, for example, cycling initiatives and hybrid buses. We know that investment in cycling infrastructure can help on a number of fronts; for example, it gets us more physically active as well as being an investment in our Commonwealth games legacy.

I know that the committee will cover other issues, but housing and transport are obviously two key areas. I am happy to answer questions on those and any other matters that members wish to raise.

**The Convener:** Thank you, cabinet secretary. Margaret McCulloch will start the questioning.

**Margaret McCulloch (Central Scotland (Lab)):** Good morning, cabinet secretary. The Government's five-year plan to develop 30,000 additional affordable homes or approximately 6,000 per year has resulted in 6,800 completions in year 1. Why did the performance exceed the target?

**Nicola Sturgeon:** Having read the evidence, I feel that the councils and housing associations that came before the committee have already given the answer to that question. First, resources have been efficiently used and we have ensured that we get bangs for our bucks—which, after all, is a key feature of our current housing investment strategy. Leverage, which I am sure we will discuss later, is key to our approach to housing investment. For every £3 that we invest, we are levering in £7. I also point out that the total of completions in any one year will reflect starts made the previous year, and that is a factor in the final figures before the committee.

Although, given the economic conditions and how they are feeding through into our budget, I do not underestimate the scale of the challenge that we face in housing—indeed, nothing that I will say will do so—I take great heart from the fact that we have overshot the target in year 1. It gives me confidence that if we continue to do the right things, we will meet the five-year target. I also note that other players in the field have said that the £760 million over the spending review period is sufficient to meet the target. The overall target is 30,000 but, of course, another very important target within that is our guarantee of 20,000 social homes, 5,000 of which will be council houses.

**Margaret McCulloch:** Your comments suggest that the total for year 1 includes double counting of approvals as well as completions. We had approvals one year, and then we had completions. Why have you changed the target from counting home approvals to counting home completions?

**Nicola Sturgeon:** I did not say and certainly did not mean to imply that there was any double counting—I was simply pointing out that houses that were started in one year might be completed in the next. We can send the committee as much detail as it wants about the composition of that figure, but I want to make it clear that it is legitimate and real and shows that we outperformed the target for the year. Although that is good, it does not mean that I or anyone else can be complacent. We still have a lot of work to do. Indeed, I am sure that members will want to raise issues such as subsidy levels and housing associations' views on their sustainability. We are very aware of and open-eyed about the challenges, but that performance in year 1 gives us a very solid and positive base on which to build.

**Margaret McCulloch:** Why has the Government moved from approvals to completions in its approach to counting housing?

**Nicola Sturgeon:** The completions figure is important and appropriate because it reflects the number of houses that have been built and which are available for people to buy or let. Rachel Gwyon might want to comment on the different ways in which we have reported those things over the years.

**Rachel Gwyon (Scottish Government):** Around the time of the credit crunch, stakeholders raised with us a couple of issues that suggested that there was a very good rationale for moving to counting completions. First, approving a house is not the same as its being available to a tenant in need; after all, because of planning, efficiency, procurement and so on there could be a gap of many years in between the two.

Our aim, therefore, was twofold: first, to ensure that the industry kept economic growth happening, that jobs were being secured and that completion of the build was happening pretty close to approval; and secondly, that the house was available to those on the waiting list who needed it. The move was supported by those whom we spoke to as a recognition of the fact that a home that is built is one that a tenant is ready to move into and that approval of a home does not give the same certainty. The target will actually be quite challenging as we move through the parliamentary session; it is not by any stretch of the imagination a get-out-of-jail-free card.

**Margaret McCulloch:** You said, "those whom we spoke to." Who did you speak to?

**Nicola Sturgeon:** Before Rachel Gwyon responds to that, I will say that I am not completely new to the housing brief; in my early days as a minister, housing was part of the broader health and wellbeing portfolio. At the time, the concerns that Rachel articulated about counting approvals rather than completions were real. The key point is that a house's being approved does not necessarily mean that it will be built. Construction activity and support for the economy will not necessarily be delivered, and the house will not necessarily become available as part of the overall housing supply.

The change is right, in that we will measure something that is more real for people. As Rachel Gwyon rightly said, the target is more challenging for Government to meet, because we are being judged on the finished product. I do not think that it takes too much for people to realise that it is easier to approve a house than to build one. The measure is the right one and we will openly and transparently be judged on it.

**Rachel Gwyon:** We were talking to a wide range of stakeholders throughout that time—the discussion with them started two spending reviews ago. For example, we talked to members of the housing policy advisory group. Ahead of budget briefings we would talk to local authority interests, councils, the Association of Local Authority Chief Housing Officers, Homes for Scotland and so on. A wide range of people had discussions with us about the challenges of getting from approval to completion.

**Malcolm Chisholm (Edinburgh Northern and Leith) (Lab):** I pick up on the issue around transparency, because the committee has struggled in that regard. When we looked at the budget documents, we could see a figure for what was planned for housing a year ago and a figure for what is planned for housing next year. However, as I am sure that the cabinet secretary will be pleased to tell us, there have been quite a lot of housing announcements in between.

It is a bit puzzling that you do not refer to the additional moneys in the budget documents. We have had to struggle to understand what the total housing budget is for this year and how it compares with next year. I think that there have been three announcements. Why were those tranches not in the budget documents? Will you clarify what they are and where the money came from? I imagine that a bit of it, if not most of it, came from Barnett consequentials, but money might have been brought forward from future years. It would be helpful to have clarity on what the housing budget is for this year.

**Nicola Sturgeon:** I take the point about transparency. To some extent, the issue flows from a determination that I hope that all members understand, which is that where we can access additional money we deploy it as effectively as we can do to support economic recovery. That is the reason behind the approach. I can understand that the committee that scrutinises the figures wants as much transparency as possible. If there is more that the Government can do to lay out the figures as clearly as possible, I will be happy to do it. The committee clerks can liaise with my officials on that.

Changes were made to the housing budget in February and in June, and when John Swinney made his budget statement in September he announced additional changes, which broke down to additional money of £30 million in the financial year 2012-13, of which £7.5 million is loan funding and the rest is straight capital funding. In 2013-14 there will be an additional £12.5 million for housing, of which £7.5 million, again, is loan funding.

Changes that have been made to the 2012-13 budget will be followed through, as is normal for

in-year budgetary changes, in the autumn budget revision. That is the normal practice. Changes in and additions to the 2013-14 budget are reflected in the draft budget. I am happy to provide the committee with more clarity on the figures if it needs it.

I am in a fairly happy position, in that I am being asked to explain why the budget has increased from published figures. It would be a bit more difficult to explain if the opposite were the case.

10:15

**Malcolm Chisholm:** I think that it would be in the Government's interests if there were some narrative. We depend on the Scottish Parliament information centre's briefing, which I have every reason to believe is reliable. SPICe suggests that as a result of the announcements during the year, the housing supply budget is £315 million this year and will be £219 million next year.

That takes me to my next question. I will not pursue the point about whether it is better to measure completions than to measure starts, but it seems to me that the approach might lead to a problem with funding. You have put extra money into the housing budget for this year, but we are now funding completions and we do not know what the completions are for this year. You said that completions tend to reflect the starts made in the previous year or perhaps two years. There was a dip in starts in 2011-12, so I would not expect the completions figure for this year to be the 6,800 that it was last year. I am a bit puzzled about how the new funding system works. If money is earmarked for housing this year and the money is spent on completions, how does that add up, if you do not have the number of completions this year that will require that money?

**Nicola Sturgeon:** The completions will be reflected in the figures for the year in which houses are completed. Giving councils more money to spend and giving money to housing associations to build houses means that organisations can plan and can start more houses, which will feed through into completions.

I will be perfectly frank. I would rather that our capital budget were not being cut to the extent that it is being cut and that we could have put in, from the start, the kind of money that we have been able to put in through Barnett consequentials. However, in a situation in which we are trying to access as much money as possible, it will sometimes be the case that additional money is provided for a specific purpose—in this case, housing—at fairly short notice.

Key players in housing warmly welcomed the additional resource, because it will mean that

more houses can be built, which is what we want to achieve.

**Malcolm Chisholm:** I am sure that everyone welcomes the additional resource and that no one questions that in any way.

As the SPICe figures suggest, we could say that there will be a reduction of £96 million between this year's total and next year's total. Are you confident of the draft budget's capacity to meet the 6,000 target next year? You highlighted the extra jobs that are coming from housing investment, and in the past you said that the acceleration of £346 million of capital supported 6,350 jobs. Someone might ask what the effect on jobs will be of the housing budget falling from £315 million to £219 million.

**Nicola Sturgeon:** We can look at the issue in various ways, and we can certainly look at it from that perspective and put that interpretation on it. However, we get to that conclusion purely by virtue of the fact that we have increased the housing budget this year.

This is an obvious point, which I will no doubt make repeatedly. We operate within a fixed capital budget, which is currently being cut by around a third. That has implications for the Scottish Government's capital programmes. That said, we are determined to do everything that we can do to maximise our capital investment.

On next year's budget, I very much hope that common sense will prevail and that George Osborne, in his autumn budget statement in a few weeks' time, will announce a capital stimulus that will lead to capital consequentials for the Scottish Government. If that happens, there will have to be Government decisions about how the money is spent, but given our previous focus, housing is certainly a candidate for additional resources. We have set a budget that is the maximum that we can set, given the resources that are available to us, but if sensible decisions are taken elsewhere and additional resources become available, next year's budget might change, as this year's budget has done.

**Malcolm Chisholm:** I am sure that we do not disagree about George Osborne, but do you think that the 2013-14 draft budget will be sufficient to deliver 6,000 units?

**Nicola Sturgeon:** Yes. If I may look across the spending review, I made a comment in relation to the questions from the previous member. In our judgment and that of some previous witnesses from whom you have heard, the £760 million that we are able to invest across the spending review as things stand—it should be remembered that some of that, certainly in the case of Glasgow and Edinburgh, goes straight to local authorities and is in the local authority budget line—is sufficient to

meet our 30,000 affordable homes target. That is not to say that there will not be challenges in meeting that target, as doing so clearly relies on the ability and willingness of, for example, housing associations to continue to develop. I am not blind to the real challenges that we face, but I consider that that budget is sufficient. That is not to say that I would not welcome more money if it was available.

**Malcolm Chisholm:** You will have heard from the housing associations—not least in your own city—that the £40,000 grant per house is not sustainable in the long run. I think that you are right that the general view from witnesses was that they might reach the target for the current period, with difficulty. However, in order to achieve the objectives, housing associations are having to use reserves, which will not be there for ever. Several housing associations have said that they simply will not be able to sustain the rate of new build. You must have heard those comments from housing associations. How do you respond to that concern?

**Nicola Sturgeon:** Let me make a number of brief points. First, the £40,000 is not set in stone and immovable. There is flexibility for innovation, energy efficiency, and houses that are particularly hard to develop for particular parts of the country.

I said earlier that I am not completely new to the housing brief. When I was first a minister with responsibility for housing and we started to bear down on the subsidy levels by necessity so that we could continue to get the volume of housing out of the budgets that were available to us, we were told that that was unsustainable and that we would not be able to continue to see houses being developed. That was proved not to be the case, and we have seen the rate of building continue.

We should not underestimate for a second the housing associations' concerns. I have a very close relationship with housing associations in my constituency; I am sure that all constituency members have such a relationship. A director of one of my local housing associations has been one of the committee's witnesses in this session, so I hear the concerns. It is true that, although things may have been sustainable a few years ago, that may not continue to be the case as reserves are depleted and borrowing conditions continue to be challenging. We require to have a very close and constructive relationship and dialogue with those in the house-building sector so that we respond to concerns as best as we can.

I cannot magic away the financial reality that we face. Unless we are prepared to be absolutely determined to get as much as we can from the investment that is available to us, we will not deliver the houses that we need to deliver. Things are not easy, but we need to continue with the



approach while we listen and respond as far as we can to the concerns of those on whom we rely to build houses.

**Alex Johnstone (North East Scotland) (Con):** I want to return briefly to approvals and completions, and how we assess the numbers. The committee has to look at the budget and try to gauge whether it is being used effectively. Using the budget as set and comparing it with the number of approvals is a fairly transparent way for us to make that assessment, whereas if completions are used, we will, in effect, be looking at a number that perhaps relates to a budget from some years ago, while this year's budget can be judged only by outturns one year or two years in the future. Do you accept that moving from approvals to completions makes the process a bit more opaque?

**Nicola Sturgeon:** We never paid out money on the approval of houses; it was usually paid in stages, I think, up to and including completion. It was never the case that, when a house was approved, the budget went out the door in response to that. That is an important point of clarification.

I understand the challenges that that poses for a committee that is scrutinising the budget on a year-by-year basis, but those difficulties are not deliberate. It is nobody's intention to cause those difficulties, and we have already had the discussion about the importance of measuring completions.

I am happy to consult my officials to see whether there is a way in which, in the future, we can present the committee with information—perhaps supporting information, rather than information in the budget document—that will enable a better understanding of the connection between the budget spend in one year and the completion of houses that were started in previous years. I will come back to the committee with suggestions of things that might assist your scrutiny in future.

**The Convener:** We have a lot to get through, so it would be helpful if questions and replies could be as brief as possible.

**Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP):** My question follows on from Malcolm Chisholm's points about concerns around the financial capacity of the housing association sector to continue to meet the targets.

The target for new affordable supply was originally premised on independent research, led by Glen Bramley, on the long-term financial capacity of social landlords to deliver more affordable supply. Two years on, what is your view of the financial capacity of the sector to deliver affordable housing supply, and to what level is that

possible? Does that capacity facilitate the long-term development of affordable housing?

**Nicola Sturgeon:** As I said earlier, the targets that I have set remain achievable. I am of the view that they can be achieved. That is why they remain our targets. However, as I have said in response to previous questions, I do not underestimate the challenges that we face in doing that.

On your question about the capacity of the sector, the capacity of different players in the sector varies. Further, that capacity has changed and will continue to change. That underlines the importance of the point that I made about our having a close dialogue with housing associations in particular.

It is obviously the case that, if subsidy levels are lower, housing associations require to fund more of every house through other sources, whether that is from reserves or greater levels of borrowing. That affects capacity on an on-going basis. It is not a fixed feature; it is something that we need to continue to monitor to ensure that the targets that we set are deliverable, and not just in terms of the money that we commit to them—there is no point committing money to the targets if we do not have people who want to spend that money on building houses.

We need to monitor the situation closely. We do that to the very best of our ability by talking to the sector collectively and to individual players in the sector on an on-going basis.

**Rachel Gwyon:** The only thing that I would add is that the ability of councils to consider housing need in their area and to work with registered social landlords to provide houses, as well as using their own provision, means that it is possible to take a strategic view in each area and see whether need is being met in the right places. Some housing associations might decide that they want to develop right now, and some might decide that they want to focus on services to their tenants right now and develop in a few years' time. That still means that, overall, there is a chance for a strategic and spatial view to be taken of meeting need in an area.

**Adam Ingram:** Councils have a greater financial capacity than housing associations. They can borrow money more cheaply, through the Public Works Loan Board. Therefore, would you expect more social housing to be built by councils as opposed to housing associations? Do you think that the balance is shifting in terms of supply?

**Nicola Sturgeon:** Housing associations remain the principal supplier of affordable social housing. In recent years, councils have got back into the house-building game, which has been a welcome development.

A figure that I quote occasionally, which not everyone likes to hear, is that in the final four years of the most recent Labour Administration only six council houses were built. We have turned the situation round dramatically, and there is a new generation of council house building. The fact that councils have access to a source of borrowing enables them to do that.

Although we have seen that shift, I do not anticipate that the position of housing associations as the lead players in this area will change. Of course, we have changed the way in which we allocate the money to councils so that they can take a holistic view across the piece. As Rachel Gwyon indicated, that enables councils to take a strategic view of where the need is in their area and what the best way is of meeting it.

10:30

**Adam Ingram:** To return to the issue of subsidy per unit, you say that you keep the financial capacity of the sector under constant review. Does that mean that you might review the subsidy per unit if you find that there is a drag in the provision of housing in the housing association sector?

**Nicola Sturgeon:** There is flexibility in that system already, which is important in allowing us to take account of the fact that in any given year some developments will be more costly to develop than others. It is important to have the flexibility to deal with particular circumstances and that we continue to have an overview. It is only fair to say to the committee that we are not in the position of being able to turn the clock back to the subsidy levels that were available when I was previously in charge of the housing portfolio. We would not be able to deliver the numbers that we want to deliver if that were the case. "Flexibility" is the key word, but it would not be fair to give anyone the impression that we can go back to significantly higher subsidy levels.

**Adam Ingram:** Is there anything else that can be provided to help the sector to develop or expand its financial capacity?

**Nicola Sturgeon:** Yes. Rachel Gwyon has been involved in some of that work. I am not saying that any of this is simple or without its difficulties, but we are keen to encourage the availability of different sources of finance, such as pension funds, or other innovative ways of funding housing projects. Rachel Gwyon was heavily involved in the development of the national housing trust model, a version of which is now available for registered social landlords. That scheme allowed relatively small amounts of Government money to be used in the form of a guarantee—as opposed to a subsidy—to lever in significantly higher amounts of money and deliver houses. We

definitely want to focus on such innovative ways of levering in funding, as well as continuing to talk to housing associations and others about the appropriate level of subsidy.

I do not know whether Rachel wants to say any more about the NHT.

**Adam Ingram:** Perhaps she could also say whether there are any models other than the NHT that the Government is actively considering in the context of boosting affordable housing supply.

**Rachel Gwyon:** Absolutely. This is an area in which we work closely with housing associations and others on an on-going basis. Through our innovation fund, we had a range of ideas. We are looking at what we call housing association grant recycling, which involves taking funds that become available when RSLs dispose of properties and allowing them to be reinvested in the provision of more homes in the future. Earlier this year, Clyde Valley Housing Association was involved in a joint scheme with Savills, and we are looking at another few schemes that involve bringing in pension funds and getting that leverage. That frees up the budget that is available for social housing and council housing provision so that that greater leverage can be used for the homes that are affordable and accessible, in the sense of being below housing benefit level.

We are always happy to look at challenges that people bring to us to do with the availability of finance or efficiencies in procurement with a view to helping the sector as a whole to take costs out of that part of their model or to free up access to finance so that they can keep developing.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** I will move on to land supply. We know that private house builders and supermarkets have large land banks. In rural areas, land is owned by a small number of landowners. Is a lack of land supply a constraint on the delivery of affordable homes where they are needed, now and in the immediate future?

**Nicola Sturgeon:** That can be the case; it has undoubtedly been a feature in the past and might well be again. Land supply is not the biggest constraint at the moment—the biggest constraint is the general economic conditions and the problem of access to finance, which might be why a landowner banks land as opposed to developing on it. Other factors are at the root of the challenges in the housing market, but the land supply issue has been and, I have no doubt, will be a factor in the future.

**Gordon MacDonald:** You say that land supply will be a factor. Is the Government looking at ways of tackling it, especially in rural areas?

**Nicola Sturgeon:** We want to ensure, and we are ensuring, that we have in place the policies and, where appropriate, the funding to encourage appropriate development on land, rather than have land sitting idle and doing nothing. Whether it is through our subsidy scheme or some of the innovative financing work that we are doing—the changes for empty properties that have recently gone through Parliament do not particularly relate to land but are sort of related—our focus is on how we direct policy to get appropriate development. Generally speaking, it is in nobody's interests for such development not to happen, because it provides the economic construction activity and the homes at the end of the process.

**Margaret McCulloch:** There is concern that the building of homes on land that might be contaminated or of houses that are adapted to meet wheelchair users' special needs might be restricted because of the extra costs. You said that your approach to building costs is flexible. If you find that housing associations are not building on brownfield sites because of contamination and are not building houses for wheelchair users because of the extra costs, will you consider giving them extra money, to ensure that special amenity houses are built for individuals?

**Nicola Sturgeon:** The short answer is yes—I am mindful of the convener's warning not to give too lengthy answers. Such factors are exactly why we need flexibility on subsidy levels and exactly what could lead to subsidies being determined at a different level from the benchmark.

Separate from the housing investment programme is the vacant and derelict land fund, which is designed to help to bring contaminated land back into use. The answer to your question is yes, as I said.

**The Convener:** We will move on to welfare reform. What impact will the universal credit and housing benefit reform proposals have on the affordable housing supply?

**Nicola Sturgeon:** I am very worried about the impact of welfare reform. I gave evidence on the budget to the Welfare Reform Committee. Various strands of the welfare reform agenda are a cause for concern because of their impact on vulnerable people and—in relation to your question—on housing associations' financial capacity and their ability to deliver.

I will isolate the two strands that concern me most. One is the proposal to pay housing benefit direct to claimants, as opposed to landlords. We have expressed concern to the Department for Work and Pensions about that proposal, which has implications for vulnerable people and for housing associations' ability to develop, if one of

their principal sources of income is not seen to be as stable as it previously might have been.

The second example to isolate or highlight is the underoccupancy provisions, whereby any housing benefit claimant who is deemed to be underoccupying a house will face a 14 or 25 per cent cut in housing benefit. We will all have examples in our constituencies of people who will be affected by that. In addition to the impact on the individuals concerned, there will also be an impact on housing associations, many of which will be in the invidious position of having to rehouse people. As housing associations do not have a ready supply of one-bedroom houses to put people into, they will have to take the hit themselves or, worse, look to evict people when they fall into rent arrears.

Those are big changes with potentially frightening impacts. I am very concerned that the Department for Work and Pensions either has not thought through the impacts properly or has thought them through but has decided to press ahead regardless.

**The Convener:** What, if anything, can the Scottish Government do to mitigate the impact of the reforms? Are there perhaps lessons to be learned from Northern Ireland?

**Nicola Sturgeon:** Northern Ireland is a good example because, unlike Scotland, it already has devolved power over welfare, so it has leverage over those things, which, unfortunately, we do not have just now. Northern Ireland has been able to bring about alterations to the general proposals that will ameliorate some of those effects. We will certainly continue to argue that case with the DWP. In my view, that is, as they say, a slam-dunk argument for having the power yourself rather than having to be subjected to decisions that someone else takes on your behalf.

In a broader sense, we are taking an approach as a Government to mitigate as much as we can the impacts of welfare reform. On housing, we are funding some research work to help the sector generally to prepare for the reforms. More substantially, we have made resources available in partnership with local authorities to mitigate the 10 per cent cut to council tax benefit. More recently, we have announced that we will set up the Scottish welfare fund when responsibility for crisis loans—which will become crisis grants—and community care grants transfers to the Scottish Parliament next April, and we will supplement that fund by more than £9 million.

We are doing everything that we can, but, as I have said to the Welfare Reform Committee, nobody can expect the Scottish Government, operating within a fixed budget that is declining, to be able to mitigate those effects absolutely. That is

simply not possible. That is why I believe that we should not be subjected to decisions taken by a Tory Government in Westminster; we should be able to take these decisions ourselves.

**Jim Eadie (Edinburgh Southern) (SNP):** Good morning. On the issue of approvals versus completions, in response to detailed questioning from colleagues you said that you and your officials are willing to look again at whether there is scope for greater transparency and better presentation of the data. I very much look forward to that and I welcome the commitment and willingness that you have shown this morning. Is there anything further that the Government can do to guarantee completions over the three-year period and beyond?

**Nicola Sturgeon:** I am not sure that I understand what you mean by “guarantee completions”.

**Jim Eadie:** The Government has set a target and, clearly, you want to demonstrate that you are meeting that target. What more can you do to demonstrate that you are meeting the target year on year?

**Nicola Sturgeon:** Obviously, we will publish the figures year on year, which will demonstrate where we are overall in terms of the target. In the first year, we were significantly above the target, but that may not be the case in every year. We will be judged overall on our performance against that five-year target.

On what we can do to ensure that the target is delivered—the figures will speak for themselves, so there is nothing that we could, or should, do in terms of their presentation—we must have an absolute focus, as we have discussed this morning, on getting as much house building as possible out of the money that we provide. That means a continued bearing down on subsidy, albeit that we need to listen to concerns within the sector about sustainability and ensure that we do not go too far and undermine our efforts in the process.

We must continue to find alternative sources of funding to supplement the Government’s resources and to consider innovative ways of funding housing. Those things are the levers that we have to pull to ensure that the target is met. It is important to meet the target, not just because it was a Government manifesto commitment—although, clearly, we want to deliver that—but because the houses are needed, as we have significant housing need in the country.

10:45

**Jim Eadie:** That is helpful.

We are entering a new phase on the reform of the planning and implementation of affordable housing spend by local government, with the move to multiyear resource planning assumptions and local authorities taking much more of a lead in the development funding process. What do you see as the advantages of that process?

**Nicola Sturgeon:** The move has been welcomed by the Convention of Scottish Local Authorities. Inevitably with such a change, people will be nervous and will want to be convinced that it is the right thing to do and that it will not have unintended consequences.

The changes will for the first time bring together council and registered social landlord funding streams into one budget. Previously, when I last sat in the housing seat—as I keep saying—those funding streams were separate. We are bringing them together so that the funding is looked at holistically as one overall fund. The advantage that that delivers is the ability of councils to exercise their strategic role more flexibly and to put to the Government a programme of social and affordable housing development that meets the housing need that they have identified. To return to the points that Rachel Gwyon raised, that allows councils to be flexible so that, if a particular housing association does not want to develop right now, a council can consider other ways in which housing need can be met.

The ultimate sign-off remains with Government. It has been an important assurance for stakeholders that we will have oversight and can ensure that the plans that councils produce have the right mix of council and housing association provision; that they meet need; and that they use resources appropriately and in a way that is likely to deliver maximum benefit.

One concern that housing associations have is that councils will spend more money on council house building than on housing association building but, in the plans that have been produced so far, we have seen a healthy mix. It is right that the mix will vary from one part of the country to the other and it will probably vary from one year to another, too.

**Jim Eadie:** Thank you for that answer and for pre-empting my next question, which was about whether you have any concerns about the process.

You say that the final sign-off remains with the Scottish Government. Are you confident that that provides sufficient strategic oversight of a system in which four fifths of the programme is determined locally?

**Nicola Sturgeon:** Yes. Our teams that work in the area are in the process of agreeing programmes with councils across the country. We

will look at the overall balance of the programme; the respective subsidy levels for council and RSL projects; the mix of developers in each area; and any other matters that we consider appropriate, in line with our overall national strategy for housing supply. The final oversight function is important and helps to guarantee that we spend the housing investment properly and with maximum effectiveness, but in a way that allows that important local flexibility.

On my point that I think pre-empted your question, the mix between council and RSL provision will rightly and for good reason vary, but I expect RSL provision to be part of the programme in every area in Scotland unless there are exceptional circumstances that mean that that should not be the case.

**Gordon MacDonald:** I have a quick question on the shape of the housing associations. Witnesses have identified that the reduction in the average grant and the greater development risk are changing the profile of developing housing associations. In my constituency, a small, community-based housing association has pulled out of developing in the area. What evidence is there that a smaller number of larger housing associations are taking a greater share of the housing supply, and can we address that?

**Nicola Sturgeon:** We need to monitor that carefully. Some of the key housing association players in my constituency are concerned that we will end up going down the same road as England, where big providers monopolise or dominate the market. We are nowhere near that in Scotland, but I readily concede that there are drivers and pressures in the system that may give legitimacy to those concerns. We will continue to monitor the situation carefully.

Largely as a result of my constituency experience, I am a big fan of community-based housing associations not just because of their work in providing houses, but because of their work in building communities. There are some fantastic housing associations in my constituency and I want them to be active players in the market for a long time to come. We will monitor the situation carefully and will listen to the concerns that are expressed.

**Gordon MacDonald:** You say that there is a danger that larger housing associations could dominate or monopolise, although we are not quite there yet. Can we do anything to support small, community-based housing associations to develop locally?

**Nicola Sturgeon:** It is about keeping flexibility in the system. It is not that I think that we are not quite where England is at the moment—we are nowhere near that. However, we must listen to the

voices that are raising concerns. We must listen and respond as well as we can to those concerns to ensure that we design a system of housing finance that delivers the volume of houses that we need but which is also mindful of the particular needs, constraints and circumstances of smaller providers.

I concede that there is often a real tension between those two agendas, which I know is of concern to some small housing associations right now. I cannot magic away that tension; we just have to manage it as well as we can. We must ensure that we are protecting the community-based provision as well as doing our best to meet the volume targets that, for good reasons, we have set.

**Alex Johnstone:** The Government has set a target of providing 6,000 units of affordable housing a year. However, some witnesses believe that the need might be for as many as 10,000 units a year. To what extent will the spending allocations for new affordable houses match the actual levels of need, and how will they match the spatial distribution of need across Scotland?

**Nicola Sturgeon:** I would like us to be able to do more. If you could have a word with your colleague George Osborne and suggest that he give us some capital consequentials, I would warmly welcome that. We are doing as much as we can within the rapidly and dramatically diminishing—I was going to say “constrained”—capital budgets that we have.

There is massive housing need in Scotland. I know that from my constituency experience, and all members around the table will know it from their local experience. We have set what we consider to be a realistic and achievable target— notwithstanding all the issues that we have talked about this morning—and we will continue to deliver on that. We will also continue to look for any way possible to divert extra resources into housing to continue to meet the need as best we can.

On spatial allocations, over the summer a Government and COSLA working group looked at future resource planning assumptions and how they could be calculated better according to a needs-based formula. We are currently considering the recommendations of that working group and hope to be able to announce our proposals shortly. We are, in effect, considering how we could better allocate the money that we have to reflect where the need is spatially. I am happy to keep the committee up to date with the recommendations that flow from that.

**Alex Johnstone:** Okay. What is the continuing rationale for allocating two thirds of the additional

affordable housing supply as social housing, of which 5,000 units should be council built?

**Nicola Sturgeon:** First, the rationale is that the allowance should reflect the substantial need for social housing. I think that it is right that we have set that two-thirds target, which is probably slightly less than was the case in the split between social and other affordable housing in the past—I think that it was above 70 per cent. It is right in the current environment that the amount is slightly lower.

There are different forms of housing need. For example, there are people—the bit in the middle—who do not meet the criteria for eligibility for social housing but who also cannot afford to access housing through traditional ways, such as a mortgage. It is important to recognise that. Also, having affordable houses that are not social housing better enables us to consider different ways of levering in innovative financing, in terms of the return that we can get on that kind of investment. That is the broad rationale for the policy.

The 5,000 council houses target goes back to Adam Ingram's point about need. I absolutely believe that RSLs will continue to be the lead player, although I think that we—not “we”, but previous Governments—had allowed council house building to wither and die on the vine. It was right that we reversed that and got councils building again.

**Alex Johnstone:** We are close to finding out whether we have achieved the 2012 homelessness target. To what extent do you think current levels of affordable housing supply will affect the ability to deliver on that commitment?

**Nicola Sturgeon:** It is a big factor—but not the only one. As you said, we are close to seeing whether we will meet the target. I certainly hope that we do, because it was an achievable target to aim for. Obviously, to tackle homelessness we need a supply of houses for people to live in—that is a commonsense and obvious statement to make—and councils have done a lot to work towards the target. Many councils have done fantastic work around preventing homelessness, through working with people to better enable them to sustain tenancies and dealing with some of the root causes of homelessness. Those are all big factors, as is the headline figure for housing supply, the importance of which we certainly must not underestimate.

**Malcolm Chisholm:** I think that this is the end of the housing questions section, but we are obviously very focused—in terms of housing and transport—on climate change. To add to your many other responsibilities, we might legitimately call you “cabinet secretary for climate change”

because whether we meet our climate change objectives or not will depend more on your portfolio than on any other. On housing, you may have seen the recent WWF Scotland report that concluded that a “dramatic increase” in funding to alleviate fuel poverty through improved energy efficiency in housing is required to meet the housing contribution to our climate change objectives. Obviously, there are, for the people involved, many other advantages to dealing with fuel poverty, but the WWF report highlighted the climate change aspect. What more can be done to make homes more energy efficient and sustainable and thereby to meet the housing element of the targets?

**Nicola Sturgeon:** Okay. I am going to resist the acquisition of the title “cabinet secretary for climate change”, not just because I have plenty to keep me going in my current portfolio, but because my colleague who has that responsibility would probably have something to say about it.

How we are spending money to meet our climate change targets is obviously important right across the Government. I know that the details of the draft budget breakdown and how that relates to implementation of the report on proposals and policies are in SPICe, and I think that all committees have had sight of that. The rough figures—do not quote me—for housing and the warm homes fund are as follows: for 2013-14, there is £120 million and for 2014-15, there is £114 million, so there is £230-odd million over those two years.

11:00

Fuel poverty should be and is a priority for the Government and should concern all of us. Malcolm Chisholm rightly asked me the question from the perspective of tackling climate change and making our homes more efficient. We have a number of strands of funding and work that try to deliver on that. There is a fund for green house building, which I launched not too long ago to encourage green methods of construction and to incentivise funding for that, and there is the warm homes fund, to which we are also committed. Our core fuel poverty and energy efficiency budgets include the energy assistance package, which has invested heavily in tackling fuel poverty over the past few years.

Next year, to reflect the United Kingdom Government's change from the carbon emissions reduction target programme to the energy company obligation—ECO—and its introduction of the green deal, we will launch the national retrofit programme. That will add our Government funding, which is in the region of £65 million a year, to the funding that we are able to lever in from the energy companies, to give us a fund of in

the region of £200 million a year to prioritise and address energy efficiency in our homes.

I always approach such matters asking whether we can do more and saying that, if we can, we should. Although we can always do more, the Scottish Government has continued to fund fuel poverty measures heavily, in contrast to the UK Government, which is reducing its budgets for that to zero next year. Although there is always pressure on us to do more, we should reflect on the fact that we are doing a lot more than the UK Government.

**Malcolm Chisholm:** I have a question to your colleague, the Minister for Environment and Climate Change, on such matters in this afternoon's question time. When he went to the Rural Affairs, Climate Change and Environment Committee on 24 October, he said:

"transport is not my portfolio and I cannot make changes in that regard. All that we can do is act in an advisory capacity".—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 24 October 2012; c 1211.]

He could have said the same about housing.

I was making a serious point. According to what your colleague the Minister for Environment and Climate Change said, it is up to individual cabinet secretaries to drive forward the climate change objectives. I will come back to the matter in questions on transport, but my final question on housing is this: where do the climate change imperatives sit in your scale of priorities for your enormous range of responsibilities?

**Nicola Sturgeon:** I apologise if I answered a serious question a bit too flippantly; I did not mean to. We have a Minister for Environment and Climate Change and a cabinet secretary who is responsible for climate change, but climate change is every minister's business. We make strong efforts to operate as a joined-up Government and to ensure that those overarching priorities are reflected strongly in each individual portfolio. That is certainly true of transport and housing in my portfolio.

Climate change is extremely high up the list of priorities. As a nation, society and planet, we have massive imperatives around climate change and we all must give it due priority. However, to move slightly away from the global imperative of tackling climate change, we have—as Malcolm Chisholm rightly said—the added imperative of making our houses more energy efficient not only for the sake of the environment but for the sake of the individuals who struggle to heat their homes because of rising energy prices. The more energy efficient we can make houses, the easier we make it for people to heat their homes affordably and to tackle fuel poverty.

It is a priority with many different driving forces, but climate change and our responsibilities on it are very near the top of the list.

**Jim Eadie:** The Government has set an ambitious target through its "Cycling Action Plan for Scotland" of 10 per cent of all journeys being taken by bicycle by 2020.

The committee took evidence from cycling organisations on 26 September 2012. When I asked whether the Scottish Government is currently investing enough in cycling to achieve the target, witnesses were unanimous in stating that the target could not be met with the current level of investment. Cycling Scotland stated:

"No. I do not think that there is currently enough funding to do that."

Sustrans welcomed the additional investment in cycling in last year's budget, but nonetheless said:

"As the funding stands, it is not going to happen."

Pedal on Parliament, which brought 3,000 people to lobby the Scottish Parliament on the issue earlier in the year, said:

"We need a specific and highly noticeable fund for active travel. It needs to be a significant amount. We are talking about a step change in funding."—[*Official Report, Infrastructure and Capital Investment Committee*, 26 September 2012; c 898-9.]

The target is ambitious, and the cycling organisations are unanimous in their view that, without additional investment, it will not be met.

**Nicola Sturgeon:** First, it is worth reflecting on the fact that we are committed to the 10 per cent target. As I commented in relation to the housing target, targets are not easy to meet or there would be no point in setting them, but we have commitment and determination. We have a lot of work to do throughout Scotland in order to deliver on those targets.

Some local authorities are a lot closer than others to meeting the targets. This city leads the way with a 7 per cent modal share for cycling for commuting. I will return to that point at the end of my answer. That shows leadership by example, and it is a sign that local authorities can do more than some of them are currently doing.

I will make the obvious point that I have made already this morning: we have a fixed budget.

**Jim Eadie:** I thought that you might say that.

**Nicola Sturgeon:** Anyone who argues that we should be spending more in one area must understand that the money has to come from another area of the budget. I often hear a lot of people, in many different areas, saying—understandably and rightly—that they want more money for X, Y or Z, but it is much more rare that I

hear them saying where that money should come from.

I do not dispute for a second the importance of the target. As I have said already this morning, I come to the job with five years' experience as Cabinet Secretary for Health and Wellbeing, and I know about the importance of active travel and active living, not just for the environment but for people's health.

On what we are spending, the sustainable and active travel budget—when we strip out the amount that is in it for fastlink next year—is £10 million this year and will be £11 million next year. On top of that, the cycling and walking Scotland allocation is £6 million this year, it will be just under £6 million next year and in 2014-15 it is projected to go up to £8.2 million. Significant sums of money are being invested.

We had a manifesto commitment—as members will remember—that stated that we wanted to continue to increase the proportion of transport spend on low-carbon active and sustainable travel. The proportion of spend this year will be 1.42 per cent. That does not sound like a lot, but it is up from 1 per cent in 2010-11.

I am always sympathetic to the argument that we should do more, and we will look for opportunities in that regard. Keith Brown said that we would look wherever we could for additional resources for cycling, and that commitment was made good when John Swinney announced in his budget in September an additional £6 million more than had previously been planned. We are doing as much as we can, and there is an appetite to do more.

I will end on the point that I started with: we need local authorities to do more as well. The cycling and walking Scotland budget is designed to incentivise and encourage that, but Edinburgh should be a signal to other local authorities that more can be done.

**Jim Eadie:** You will forgive me, cabinet secretary, if I hold your feet to the fire a little longer on this issue, because that is what my constituents would expect me to do. The manifesto commitment was to active and sustainable travel, but if we take out the laudable commitment to things such as green buses and focus on cycling, we must acknowledge that cycling organisations have made it clear that they do not think that the target will be met unless there is sufficient investment in cycling—not in active and sustainable travel.

**Nicola Sturgeon:** With the greatest respect, I know that this matter is important to constituents. I represent an urban area, and it is an important issue there as well.

It is appropriate to look at active and sustainable travel in its entirety. Obviously, we want to encourage people to cycle, but we also want to encourage people to walk more and to use the bus or train as opposed to getting in their car. I can understand why cycling organisations want to isolate the investment in cycling but, in looking at our priorities on health, fitness and the environment, I think that it is absolutely right and proper that we look at active and sustainable travel in its entirety.

All that said, I have enormous sympathy for the cycling organisations and people who want to see us doing more on cycling. As there was previously and as evidenced by the £6 million, there is an appetite for us to do more, but we operate within a fixed budget. Unless people want to tell us where that money should come from, we will need to continue to make such judgments as best we can. However, we will continue to try to maximise the investment that we make in cycling in order to meet our target, and we will encourage local authorities to do more. In many respects, I think that local authorities could do more than they are doing just now.

**Jim Eadie:** I hear what you say about the Scottish Government operating within a declining fixed budget and the need to say where the money would come from, but the cycling organisations have pointed out to the committee that less than 1 per cent of the transport budget is spent on cycling. The Association of Directors of Public Health said in oral evidence to us that it believes that 10 per cent of transport expenditure should be invested in active travel. Do you think that, even in the long term, that is achievable?

**Nicola Sturgeon:** First, I do not dispute the figure that you have just cited. I said that 1.42 per cent of the transport budget is spent on active and sustainable travel, so if you isolate cycling—I do not have the specific figure in front of me—it is probably as you have just cited.

It goes without saying—but I will say it—that I want to see that increase. The Government is determined to do everything that it can to move that figure up. We need to be realistic about how we do that, but the determination is there and—I am starting to repeat myself now—the commitment in the budget to an additional £6 million over what we had previously thought we could provide is a very tangible sign that, if we can, we will provide more resources to make it easier for us not just to meet, but, perhaps in the longer term, to exceed that target.

**Jim Eadie:** Thank you, cabinet secretary. My final question is on the refresh of the cycling action plan for Scotland. There has been a delay in the publication of the progress report on that. I am not concerned about that if it means that we get the



refresh right. If we need to take more time to ensure that we produce the best possible document, that is fine. Do you know when the progress report will be published? How does the Government intend to take that work forward? We also heard in evidence from witnesses that although we have some of the best policies in the world, implementation of those is what matters.

**Nicola Sturgeon:** I absolutely agree with that. If I had a pound for every time that I had heard that in relation to different things, I could probably get to your target. It is absolutely the case that there is no point in having great policies if we do not implement them properly.

Ministers are currently considering the progress report on the action plan, which was recently submitted by Cycling Scotland, and Keith Brown will say more about that very soon. On the refresh of the document, the aim is to publish that in the spring of next year following consultation of stakeholders, which will kick off at the Cycling Scotland conference next week, so there will be plenty of opportunities to contribute to the refresh.

It is worth repeating that we are absolutely committed to the 10 per cent vision. I do not want to diminish in any way the sincerity of the evidence given by the organisations involved, as we want to work with them to get to that. I accept that a big factor in that is funding, but that is not the only factor and there are other things that we need to be working on as well. That is why the action plan and the refresh of the action plan are so important.

**Adam Ingram:** Further to Jim Eadie's questions, the committee's view is that the active travel investment is very difficult to disentangle within the budget documentation, so we are looking for much more transparency in the future. Can the Government commit to providing clear budget lines that will show total Scottish Government investment in walking and cycling in all future budget documents, as recommended in our previous committee budget reports?

11:15

**Nicola Sturgeon:** I am happy to give the undertaking that we will look to see how we can do that. I am relatively new to the ministerial post and am trying to get to grips with the portfolio, the spending lines and what lies beneath them, and I have some sympathy with what you say about the challenges in the area. When I go away from here, I will certainly have a discussion about how we might present things in future budgets in a way that is easier for the committee to scrutinise.

**The Convener:** On encouraging active travel at an early age and early intervention, Cycling Scotland would like all children to have cycle training. It looks as though that training is patchy.

Does the Government have any plans to fully fund child cycle training and to make its delivery mandatory in all schools?

**Nicola Sturgeon:** I am happy to come back to the committee with a bit more detail on that. I may be wrong, but I suspect that a local authority responsibility is involved. We are seeking to roll out that training as fully and quickly as possible, but I am happy to provide more information to the committee on where we are in that process.

**The Convener:** We will move on to other transport issues and general issues. Does Malcolm Chisholm want to come back in on climate change?

**Malcolm Chisholm:** I would like to return to climate change. The transport story is not good in that area. Transport-related greenhouse gas emissions account for 19 per cent of all emissions, and they have, in fact, gone up since 1990. That is clearly a problem in light of our ambitious climate change targets.

Obviously, there is a carbon assessment of the draft budget, but there may be a problem, as it does not capture downstream emission impacts that may result from Government spending. I want to home in on the emissions from increased road use. The chart on page 158 of the draft budget document shows that, in the past five years, spending on motorways and trunk roads has increased by almost 40 per cent, from £498 million to £690 million, whereas most other transport spending lines have remained largely unchanged. Given that the transport sector has the worst record in tackling climate change emissions and that the vast majority of transport emissions come from the road sector, why is the Scottish Government pursuing a further increase in road spending, from £655 million to £673 million?

**Nicola Sturgeon:** I will answer that question directly and then talk about some of the other things that we are doing to try to deal with transport emissions. I absolutely accept that transport is important in the broader climate change responsibility.

As a country, we need a road network that is up to scratch for economic reasons, to keep us connected, and to ensure ease of travel for all the reasons that we all understand. That involves investment in the maintenance of our road network and significant investment from time to time in new or upgraded roads. I do not have the chart to which Malcolm Chisholm referred in front of me, but I suspect that the road budget figure that he mentioned takes account of some recent big projects, such as the M74 completion—as a resident and representative of the city of Glasgow, I know that that has transformed the ease of access through the city. The figure may or may not

take account of the Aberdeen western peripheral route, which—thankfully—we are now able to progress. We want to encourage people out of cars. As a non-driver, I am a big advocate of encouraging people out of cars, but I also absolutely understand the importance of a well-resourced and well-maintained road network.

Earlier, I gave the committee the two-year figure for the housing budget spend that is related to climate change targets. The two-year figure for transport is £134.2 million to reduce the impact of transport on our carbon emissions. That includes a range of things, such as active travel, which we have talked about, low-carbon vehicles, congestion reduction, current spending on the promotion of low-carbon vehicles, car clubs, hybrid buses, new rail investment, congestion management, hybrid ferries and freight support. Those activities are across a number of budget lines, including sustainable and active travel, the future transport fund, ferries and intelligent transport systems.

We are focusing on providing leadership in a number of areas, to help us to deliver the behaviour change that is necessary if people are to get out of their cars and into more sustainable forms of transport. That is a long-term objective, which will take time to achieve, and it is important that we provide leadership in the ways that I talked about.

**Malcolm Chisholm:** It was interesting to learn that you are a non-driver. When I was transport minister in 1997, my being a non-driver was quite a matter of comment. Perhaps you have created a little story by telling us that.

**Nicola Sturgeon:** Maybe, if nobody knew.

**Malcolm Chisholm:** Stop Climate Chaos Scotland, which knows a thing or two about the matter, said that the draft budget does not provide funding

“at a sufficient level to meet climate change targets, as set in the Climate Change (Scotland) Act 2009.”

What is your view on that? Is the current report on proposals and policies funded under the budget?

**Nicola Sturgeon:** The current RPP does not deal just with Government funding. It takes a whole-society view, looking at behaviour change and other sources of funding that are required. Government funding will only ever be a part of that.

We talked about the overarching importance of climate change. The Parliament and the Government have won plaudits for setting ambitious climate change targets. It is right to be ambitious, and that places a responsibility on us to live up to our ambitions and meet the targets. That will take concerted action and effort by

Government, with all our partners, over a long time.

I do not want to keep making this point, but we have a fixed budget and we need to make decisions as best we can within that budget. That is what we have done in the draft budget. We will continue to prioritise efforts to tackle climate change as we deliver future budgets.

**Malcolm Chisholm:** Do you agree that there is a particular problem with transport? In climate change terms, we are failing on transport. Many of the laudable objectives and policies that you referred to are not particularly new. If we go on doing what we have always done, we will continue to fail as we have always done.

**Nicola Sturgeon:** I am not sure that it is fair to say that we are just going on doing what we have always done. I talked about investment in low-carbon vehicles, which is the type of thing that we need to do more of. In my city, we are investing in a new rapid-transit bus system, fastlink, and there is massive investment in the subway to bring it up to scratch. Without such investment it will be hard to encourage more people to use those forms of transport. We need to continue to take action across a range of areas.

Are we doing enough? I am not sure that any Government in any country can sit back, pat itself on the back and say, “We’re doing enough to tackle climate change.” There should always be pressure to do more, and the Scottish Government will always consider how, within the competing priorities that we have, we can do more to meet our targets.

**Margaret McCulloch:** A major consultation on the Edinburgh to Glasgow rail improvement programme finished on 31 January, and the Scottish Government announced the go-ahead for an EGIP of reduced scope on 4 July. Can you give an assurance that the reduced-scope EGIP continues to represent value for money?

**Nicola Sturgeon:** The phased delivery programme that Keith Brown announced on 4 July is affordable and achievable, and yes, it will deliver value for money. It will deliver faster journey times, improved reliability, enhanced stations and increased capacity, which will help to meet passenger demand well into the next decade.

Perhaps the statistic that is most germane to your point about value for money is that the first phase, which Keith Brown announced in July, will deliver almost 80 per cent of the benefits of the original programme at 60 per cent of the cost. That is value for money.

Of course we remain committed—as we are able to commit the resources—to all the other aspects of the EGIP programme, but the first

phase announced by Keith Brown is affordable and achievable and will deliver, in my view, significant benefits for the travelling public.

**Margaret McCulloch:** The spending on the EGIP project has been reduced by £300 million. Will that money remain in the transport budget and, if so, what will it be spent on?

**Sharon Fairweather (Scottish Government):** Do you mean the difference between the £1 billion original investment programme and the current £650 million?

**Margaret McCulloch:** Yes.

**Sharon Fairweather:** The EGIP programme is funded on the basis of Network Rail's regulatory asset base borrowing. That level of funding is not in our budgets at this point in time; the payments will be incurred over the next 30 years as the programme is taken forward. The funding is built into the high-level output specification that was announced in July for the funding over the next period, but it does not appear in the budgets now because we are at the start of that programme.

**Nicola Sturgeon:** It will principally be funded by borrowing through the regulatory asset base.

**The Convener:** I will be generous and let my colleague Alex Johnstone lead on the AWPR questions.

**Alex Johnstone:** We have reached the end of the horror story that was the court challenge to the AWPR. In a written answer, the figure for construction costs was given as now likely to be £653 million plus VAT at 2012 prices. That is up from £347 million at 2003 prices. We are now in a position where a timescale is appearing to be set quickly. What is the likely outturn cost?

**Nicola Sturgeon:** The information in the answer is the latest estimate of the cost of the project.

**Alex Johnstone:** That is the cost in 2012 prices, as I understand it.

**Nicola Sturgeon:** It is in 2012 prices.

**Sharon Fairweather:** Yes, that is the cost in 2012 prices.

**Alex Johnstone:** Are you in a position to make any estimates of the eventual cost of the project?

**Sharon Fairweather:** We can make an estimate based on the standard Government estimate of inflation of 2.5 per cent per annum between now and the completion time. The outturn cost will depend on actual inflation levels between now and completion, as well as what the price comes in at as a result of the tendering process.

**Nicola Sturgeon:** I am happy to provide the committee with some information on the factors that would lead to that answer. The figure that

means something now is the figure that was in the written answer, which is £653 million at 2012 prices. Of course, the vast bulk of the increase is down to inflation as result of the delays through the court process.

**Alex Johnstone:** The increased cost of the AWPR project will obviously affect the amount of money available for other projects. Are you in a position to say how it will impact on other projects over the next few years?

**Nicola Sturgeon:** We will make the overall decisions that we need to budget for and fund. The Government is meeting the largest share of the costs of the AWPR, which is 81 per cent of the total cost of the northern leg and southern leg elements. Aberdeen City Council and Aberdeenshire Council are both contributing 9.5 per cent. Yes, there is an increased cost, but it is within certain limits and we will take appropriate budgeting decisions in future years about how to factor it into the budget without it having a massive impact on other projects.

**The Convener:** I will ask about trunk road maintenance budgets. There have been recent media reports—whether true or not—about a 6 per cent increase since last year in the work required for trunk road maintenance. Do you have the balance right between the funding of new trunk roads and the maintenance of the existing network?

11:30

**Nicola Sturgeon:** That is one of the things that Governments have to make sure that they keep under close review. It was not exactly the same, but I would frequently have similar discussions about the health estate regarding the balance between making sure that routine cyclical maintenance was done and investing in new hospitals or health centres. It is a feature of on-going planning.

The Government is absolutely committed to making sure that the trunk road network remains safe and efficient and that it enables businesses and commuters to engage and get where they need to be. Since 2007, we have invested a total of more than £2 billion in maintaining and improving the trunk road network and we need to continue to invest at appropriate and realistic levels to make sure that we keep it safe and up to scratch.

**The Convener:** That is the last of the evidence for our scrutiny of the draft budget. At its next meeting, the committee will consider all the evidence that it has gathered. I thank all the witnesses for their evidence. It would be helpful if we could have as soon as possible the additional

evidence that witnesses have promised throughout the meeting.

11:36

*On resuming—*

11:31

*Meeting suspended.*

## **Water Resources (Scotland) Bill: Stage 1**

**The Convener:** We come to agenda item 2, our final evidence session on the bill. I welcome Nicola Sturgeon back. She is supported by Scottish Government officials Christina Phillips, bill manager with the water industry team; and Stephen Rees from the legal directorate. Do you wish to make a brief opening statement, cabinet secretary?

**Nicola Sturgeon:** I will make a very brief one. Thank you for the opportunity to discuss the bill.

In Scotland, we have a relative abundance of water. We have a beautiful water environment and, in Scottish Water, a highly successful public corporation. The bill seeks to acknowledge the importance of water as a natural asset; to put a duty on ministers and others to develop Scotland as a hydro nation, which means a nation that utilises its water resources to the fullest potential; and to further improve our management and protection of the water environment.

That is an ambitious agenda. It goes without saying that the work of building Scotland into a hydro nation is not only down to legislation that we pass; it is also about the programme of work that we are developing alongside the bill. When we say that water is a precious resource, it is important to emphasise that we are referring to not just the physical liquid, but the expertise on water governance in Scotland and our academics who have specialist knowledge of global water issues and management. We also have a track record of developing new and innovative technologies in the sector. Taking all that into account, it is clear that we have a thriving and dynamic water sector. The Government's role, helped by the bill, is to encourage collaboration, support innovation and find fresh approaches to ensure that we maximise the potential.

**The Convener:** We have heard in evidence concern about the extent to which the bill and the hydro nation agenda will benefit customers in Scotland. Specifically, it has been questioned whether any economic gains will be derived from better management of the water resource and, if so, whether those will be passed on to customers in the form of lower bills.

**Nicola Sturgeon:** I have read all the oral evidence that has been given to the committee, so I know that you have discussed that issue with witnesses. The bill has the potential to deliver tangible and perhaps more intangible benefits to customers. In the tangible category, in the longer

term it would be open to ministers, subject to future ministerial decision making, to utilise or allow to be utilised any profits that derive from Scottish Water's commercial activities in its non-core business to benefit the customers and consumers of its core business products. That is certainly possible although, as I say, it would be down to decisions of ministers.

The next issue is more in the intangible or less tangible column. If we encourage Scottish Water and place duties on it—to the extent that the bill does—to maximise the full potential of its resources, to innovate and to become even more expert and even more willing to use and even develop the latest technologies and the latest thinking, that will cross over into how it does its business in its core functions, which will benefit customers.

It benefits us all in some way if we develop Scotland as a global leader on the hydro nation front. Being recognised as a leader on the use of water and sharing expertise on water management and governance with other parts of the world will benefit us all.

**The Convener:** At the same time as we are considering the bill, the European Union is consulting on a blueprint to safeguard Europe's waters. How has the Scottish Government taken account of the developing EU policy and any UK policies that might affect the bill?

**Nicola Sturgeon:** The question is important, because the two agendas run to an extent in parallel. You will be aware that the European consultation closed recently. My officials are keeping a close eye on progress as we await the blueprint's publication.

Our hydro nation agenda in general and the bill in particular are consistent with the priorities across Europe on the good stewardship of water. The principles that are involved in the European work concern improving the implementation of current EU water policy by making full use of the opportunities in the current framework. We believe very much that what we are doing is consistent with European developments, but we will continue to monitor and track that carefully, to ensure that alignment exists.

**The Convener:** Have your officials flagged up any inconsistencies that might arise?

**Nicola Sturgeon:** We are mindful that there might not be immediate alignment on one issue—metering—but we are pretty comfortable that what we are doing is aligning closely with the principles, the thrust and the objectives of EU developments. We will keep a close eye on that.

Once the blueprint has been published, the committee might want to take evidence on the

interaction between that and our work. I would be happy to speak to the committee at that time.

**The Convener:** The James Hutton Institute and the IHP-HELP centre for water law, policy and science highlight the benefits of linking the bill's proposals with the land use strategy and wider climate change ambitions. How do you respond to that suggestion? Could such links be beneficial in fostering a more holistic approach to developing Scotland's water resource?

**Nicola Sturgeon:** Yes. We should look to make links between all the areas of our policy. It is absolutely correct that there are obvious links between water policy, planning and climate change. We must understand those links and take a joined-up approach.

I return to a point that I made in my opening remarks. The bill is only one part of the hydro nation agenda, which encompasses all the other strands of work that you are talking about.

**The Convener:** We have heard calls from environment and consumer groups for Scottish Water to educate its customers more on water-saving measures. Do you intend to require Scottish Water to undertake such an education campaign?

**Nicola Sturgeon:** Scottish Water is already engaged in trial work on that issue. We will discuss with it the evidence that the committee has heard and ensure that it factors that into the work that it has planned or which it might plan for the future.

11:45

**Malcolm Chisholm:** One of the issues with the bill is what is required to be in legislation as distinct from what the Government can do already or what the Government will progress—as you have just indicated—as part of the wider hydro nation agenda. Can you outline the benefits of the proposals in part 1? Given that the Scottish ministers can already require public bodies to work together and can already require a focus on the development of water resources, what are the benefits of part 1 and which aspects of it are required to be in legislation?

**Nicola Sturgeon:** I understand that you are asking specifically about part 1, but my answer applies, to some extent, to different parts of the bill—for example, part 3—as well. The difference is between what can be done just now and what the bill says should be done through the placing of a duty on ministers and, in a later part of the bill, on Scottish Water. It is important that we move from a more permissive approach to clear and explicit duties.

Part 1 imposes a duty on ministers to take steps to ensure the development of the value of Scotland's water resources, which is a pretty strong duty to place on ministers. It is much more powerful and meaningful than simply saying that there is nothing preventing ministers from doing that already. It highlights the importance of water as a national resource and the importance of our realising the potential of that resource both domestically and internationally. It is a duty under which we are accountable to the Parliament on the issue, and ministers will be required to report to the Parliament on what has been done to carry out that duty.

**Malcolm Chisholm:** That is helpful. Thank you.

The committee has heard numerous calls for the definition of the value of Scotland's water resource to be broader than the definition that is currently in part 1. In particular, it has been suggested that there should be a reference to social and environmental factors in the bill. How do you react to that suggestion, which has come from quite a few different groups?

**Nicola Sturgeon:** It has come from a lot of groups, and I have been mindful of that as I have read the evidence. However, it is my clear understanding and interpretation of the definition as it is currently drafted that although it indicates the importance of economic value, it does not do so to the detriment of other factors, such as environmental or social benefits. Members will be aware that, separately, ministers are tasked to act in a way that ensures the sustainable use of resources. It is worth bearing that in mind as well. That said, I was struck by the near unanimity of that view and, as we proceed to stage 2, we will certainly give consideration to whether we want to respond to that by lodging amendments.

**Malcolm Chisholm:** That is helpful, too, thank you.

The centre for water law, policy and science and SSE suggested that any direction issued by the Scottish ministers to a designated body should first be subject to a public consultation. I think that the centre for water law, policy and science also said that there should be a requirement to consult the designated bodies as part of that. Do you support that proposal and can you give an indication of the type of directions that might be issued?

**Nicola Sturgeon:** I envisage the power of direction being used sparingly. It is hard to isolate individual examples, as we are dealing with a number of organisations that are listed in the bill. We could give a direction for an organisation to ring fence a particular aspect of its activity in order to focus on the issues in the bill, but I do not expect the power to be used overly liberally.

I have looked carefully at the evidence that has been submitted on the specific point about consultation, and we will reflect on all the evidence that has been submitted. On balance, however, my view at the moment is that the issuing of a direction of this nature should not require a public consultation or a wider consultation, although it would clearly require consultation with the body that was subject to the direction.

As a former minister, Malcolm Chisholm will know that ministerial directions are often given for specific reasons in specific circumstances. Having in the bill a requirement to carry out wider consultation would limit the ability of ministers to use the power of direction quickly and flexibly. At the moment, my view is that I would not be sympathetic to making a change in that direction, but we will continue to consider the evidence.

**Malcolm Chisholm:** Okay. That is fair enough. A compromise might be consultation with one or possibly all of the designated bodies. I am sure that we will return to that issue in the report and perhaps—who knows?—in amendments.

My final question is about the reporting requirements. There is some concern about the fact that section 26 of the Water Environment and Water Services (Scotland) Act 2003—which relates to reporting—is being repealed and some confusion about what the new process will be. Ministers will be required to report on the exercise of their functions under the bill, but people are not clear whether they will have to do so every three years or whether it is a one-off requirement that they will have to fulfil after three years. Could you clarify that and comment on the concerns about the repeal of the requirement in the 2003 act?

**Nicola Sturgeon:** In relation to the three-year provision, we must recognise that we are talking about a long-term agenda. My judgment would certainly be that, given that it is a long-term agenda, three years is a reasonable period after which to expect a progress report. That is my first answer.

I should say—this forms part of my answer to the second bit of your question—that the Parliament can ask ministers for an update at any time. A minister can be asked to come to a committee at any time. The fact that there is a statutory requirement for a report after three years does not in any way limit the ability of the Parliament to hold ministers to account and to scrutinise progress at an earlier stage.

I have noted the desire of stakeholders—which you hinted at—for greater clarity on a regular timetable for the submission of reports. The bill is drafted in such a way that it says that “a report” must be submitted after three years. I will look to see whether we should introduce amendments at

stage 2 to make it clear that there is a requirement to report regularly after the first report.

As far as the repealing of the provision in the WEWS act is concerned, the information that was required is readily available. As I said, MSPs can ask for an update at any time, so I am not sure that we should continue to have the burden of annual reporting on what is a long-term agenda, unless there is a good reason to do so. I think that the three-year period that we are moving to in the bill—bearing in mind my comments about the possibility of amendments to the bill to ensure that that happens on a regular basis—is the right balance to strike.

**Malcolm Chisholm:** Thank you very much.

**The Convener:** We move on to the control of water abstraction.

**Alex Johnstone:** Water abstraction has become my favourite subject in the bill.

The part of the bill on abstraction did not form part of the consultation. A number of witnesses expressed concern about that. Why did you not consult on the abstraction rules prior to the bill's introduction?

**Nicola Sturgeon:** That was not because we did not want to consult; it was simply down to the fact that the part of the bill on abstraction was developed at a relatively late stage of the process. In other words, it was a timing issue. We developed part 2 of the bill after the two consultation exercises had already been undertaken. The abstraction provisions—the substance of which I am sure we will come on to talk about—are about highlighting the value of the resource that we have in Scotland and how we ensure that we safeguard it for the future. I recognise that there was not the same level of consultation on part 2 as there was on other parts of the bill.

However, my officials will continue to talk to stakeholders about the provisions in question. We will pay particularly close attention to the comments that have been made to the committee in oral and written evidence on part 2 to inform any changes that we might want to introduce at stage 2.

**Alex Johnstone:** A small number of specialist interest groups have suggested that it might be appropriate for the Government to conduct a formal consultation on the abstraction proposals before stage 3. Do you feel that that is necessary, or do you feel that you are doing such work in the interim?

**Nicola Sturgeon:** As we are already going through a fairly well-established consultation process, I am not convinced of the need for more formal consultation. We are talking to—and are

happy to talk to—any group or stakeholder interest with particular concerns that might want to persuade us to introduce stage 2 amendments, and are happy to continue that open dialogue as we approach stage 2 and move into stage 3. Obviously, the committee's report will also be important in our considerations.

**Alex Johnstone:** A number of witnesses have suggested that the policy intention behind the bill's abstraction provisions is unclear, particularly given that water abstraction is already controlled by the Water Environment (Controlled Activities) (Scotland) Regulations 2011. What will the new system achieve that the current system does not?

**Nicola Sturgeon:** A lot, in my view. This is not a criticism, but the fact is that the CAR system is restricted to environmental factors. Members will know this, but it is worth putting on record that the bill does not interfere with that particular process and that people who want to abstract water will still have to go through the CAR process. However, if they go over the threshold that is set in the bill, they will have to go through the additional process. As the bill makes clear, in considering applications ministers will be able to have regard to factors, such as the social and economic value of the activity, the applicant's financial circumstances and the overall effect of the abstraction, that they are unable to have regard to under the CAR process. Unlike an approach that simply looks at environmental impacts, that kind of approach allows us to take an overall view of the value of the resource and, bearing in mind that value, to make judgments as to whether large-scale abstractions allow us to safeguard that resource properly and appropriately.

**Alex Johnstone:** Some key stakeholders have expressed concern about activities that have been exempted from the new consent regime for large-scale water abstractions. How did the Government arrive at the list of exemptions in the bill?

**Nicola Sturgeon:** Exemptions from the abstraction regime largely cover activities that are for the most part non-consumptive of the water abstracted and which confer wider public benefit, such as Scottish Water's activities in providing drinking water. I should again point out for the record that Scottish Water's non-core activities would not be exempt from the regime. On the other hand, the generation of electricity by hydro power, irrigation and so on are considered to fulfil a social benefit as well as being generally non-consumptive of water. Those were the general rules and criteria applied in deciding on the initial list of categories of exemption, which, of course, can be changed at any time if we think it appropriate.

**Alex Johnstone:** Why did you choose a limit of 10 megalitres a day?

**Nicola Sturgeon:** Given that, like you, I have had to learn a lot about this issue in a relatively short time, I should perhaps respond by using a non-technical term: 10 megalitres a day is a lot of water. I also point out that the threshold applies only to future abstractions and not to current ones.

We chose the limit simply because it is a significant volume of water. As I understand it, the vast majority of abstractions in Scotland currently fall beneath that threshold, so the regime is not likely to have a massive impact on those who use water. However, I guess that it all comes back to the bill's original purpose of recognising the value of water and our obligation to sustainably safeguard that resource and its value for the future. In that respect, it is right to set a fairly high threshold, given that big abstractions will be more likely to jeopardise that kind of sustainable safeguarding. Like the list of exemptions, the threshold can be changed if reasons for doing so emerge and the regulations that we would introduce would be subject to the affirmative procedure and the associated level of parliamentary scrutiny.

**Alex Johnstone:** Finally, the new abstraction regime might impose additional costs on businesses. Are you able at this stage to indicate the possible scale of charges for the new regime?

12:00

**Nicola Sturgeon:** That will be set out in the regulations that we will be required to introduce and on which we will consult properly and listen to stakeholder views before reaching any decision. However, I repeat that we do not expect many to be affected by the abstraction regime. I have just been informed that the estimate is that it might affect five to 10 applications over the next decade, so it is not going to put significant burdens on people who are using water.

**The Convener:** Jim Eadie will ask about Scottish Water's functions.

**Jim Eadie:** Witnesses expressed concern that, because of its access to Scottish Government finance and Scottish Water land and facilities, Scottish Water Horizons might be at a competitive advantage to what we might call its commercial rivals. When asked about that, Scottish Water made it very clear that that was not the case, but will you put on record your views on the matter and assure us that that is not happening?

**Nicola Sturgeon:** I am very clear, first, that that should not be the case and, secondly, that it is not the case. Scottish Water's non-core activities operate fairly and on a level playing field. For example, lending to Scottish Water Business Stream happens at a commercial rate that is determined by the economic regulator; similarly,

any future lending to any Scottish Water subsidiary would also take place at a commercial rate. That is very important for state aid reasons, which I know is another issue that has been raised with the committee. We expect Scottish Water to earn a fair economic return from all its non-core commercial activities. I do not believe that it is able to operate at an unfair advantage, and nor should it be.

**Jim Eadie:** Thank you for that.

With regard to the assessment and management of benefit and risk by ministers and officials with regard to Scottish Water's exercising of its non-core functions, you have suggested that profits from the non-core business could be used to support core services and possibly to reduce customers' bills. I am interested in hearing your views not only on that but on the other side of the coin, which is how the Government might cope with potential losses in Scottish Water's non-core services.

**Nicola Sturgeon:** On the first part of your question, I cannot say much more than I said earlier. It might be a possibility in the future, but the question whether non-core profits could be used for the benefit of consumers of core services would be subject to ministerial decision making.

As for the other side of the coin, the bill and indeed Scottish Water's regulatory regime are very clear about the protection of core services and stipulate that nothing in the non-core part of Scottish Water's services should be subsidised by the money that people pay for water and sewerage services. As the Water Industry Commission for Scotland made clear when it outlined its approach to its regulatory function, it ensures that the system is transparent and that people can be assured in that respect. It also sets charges at the lowest reasonable level for customers, taking into account all of Scottish Water's investment requirements, Government lending and so on. Obviously, any Scottish Water subsidiary such as Horizons has to make decisions to ensure that it is operating in a sustainable way, but the function of the Government is to ensure that the law is designed and the regulatory system works to protect consumers of core services.

**Jim Eadie:** So Scottish Water Horizons would have to take the hit on any loss it made in its non-core services.

**Nicola Sturgeon:** Yes, and it would not impact on its core business.

**Jim Eadie:** That is helpful.

You said that any lending to Scottish Water subsidiaries would be at a commercial rate. Can you envisage a situation in which the lending to



those subsidiaries could have an impact on the total funding that is available to Scottish Water?

**Nicola Sturgeon:** The bill states that all lending has to be within limits that are set in budgets, so there is an upper limit that will apply year on year.

I cannot sit here and look years ahead and say what the division will be between the different aspects of the overall business. However, going back to your earlier question, I think that it is the responsibility and the priority of the Government to ensure that the core business takes priority and that any decisions that we make on lending to or otherwise funding Scottish Water reflect that priority.

**Gordon MacDonald:** Part 4 of the bill concerns raw water quality. The centre for water law argues that it would be better if the Scottish Environment Protection Agency, rather than Scottish Water, took on the new powers regarding raw water quality as it is already involved in raw water quality monitoring. Why do you consider Scottish Water to be the appropriate organisation to take on the new powers?

**Nicola Sturgeon:** My answer will be similar to the answer that I gave Alex Johnstone earlier about why we have put the abstraction regime in the bill instead of just relying on the CAR process. There is an overlap between the organisations' roles, but the issue comes back to the difference between SEPA's narrow focus on the environment versus the broader focus that Scottish Water is able to take through the provisions in the bill.

SEPA's focus—which is important—is on protecting the environment. Scottish Water's concern, with regard to the provisions that we are discussing, is the raw water that will be treated and put into the distribution network.

The roles will overlap, but it is right and proper that Scottish Water has the ability to find out what might be undermining the raw water quality, so that it can decide what the most effective solution to that is and find a solution in a way that benefits customers. I am quite clear that that is an appropriate function for Scottish Water, but I am equally clear that it is a function that Scottish Water has to deliver in partnership with other agencies—perhaps chief among them being SEPA.

**Gordon MacDonald:** You have suggested that there is an overlap between SEPA and Scottish Water with regard to the water monitoring network, but the centre for water law suggests that the existing SEPA network is being reduced. How do you foresee that working out in the future?

**Nicola Sturgeon:** It is important that everyone who is working in this area—Scottish Water, SEPA, farmers, organisations such as RSPB

Scotland and others who have an interest in ensuring that the work is carried out properly—continue to work together in a joined-up and complementary way. There are opportunities—not specifically in the bill but through what we are doing in the bill—to ensure that that kind of partnership working works even better than it does already.

**Gordon MacDonald:** Scottish Water indicated in evidence that it already works in partnership with other statutory bodies and land managers to protect raw water quality. What do the provisions in part 4 provide that cannot be achieved on a voluntary basis?

**Nicola Sturgeon:** I think that—as I believe Scottish Water said in evidence—partnership working will continue to operate on a voluntary basis and that the powers that are being given in this part of the bill would need to be used only in extremis and in rare circumstances. However, we all know that, in the real world, those voluntary partnerships do not always work as effectively as we would want them to. In those circumstances and given the importance of the quality of raw water, it is important that Scottish Water has the power to do what is envisaged in the bill. It is not intended that the powers will become the default way of operation. They will be used sparingly, as a last resort. The partnership approach will continue to be the preferred approach, but the provisions in the bill give Scottish Water the backstop powers that it is appropriate for it to have.

**Gordon MacDonald:** In relation to the new power of entry and inspection, the UK Environmental Law Association was concerned that the term “premises” was unclear and asked whether it included land and buildings or just buildings. Can you provide a clear definition of “premises”?

**Nicola Sturgeon:** It does not include houses—that is the easy bit of the answer. It is envisaged that it includes land and buildings. However, given that concern about a potential lack of clarity in the bill, I am happy to go away and look at whether we need to make any changes at stage 2 just to put matters beyond doubt.

**Gordon MacDonald:** Finally, the committee has heard concerns that allowing Scottish Water to enter into agreements with owners or occupiers of land to undertake works to prevent the deterioration of water quality may result in land managers being subsidised to comply with the law. In fact, in its written evidence the Scotch Whisky Association asked for safeguards to be put in place to ensure that landowners are not being paid to comply with the law—for example, in the construction of slurry storage. What assurances can you give that such a situation will not arise?

**Nicola Sturgeon:** It is certainly not the intention to do that. As I said in response to previous questions, I am happy to see whether we need to do more to clarify that in the bill. This is a point that I will no doubt also make on the section on the sewerage network: it is not the intention to remove the responsibility of private owners of land or of septic tanks, which later sections of the bill deal with; it is very much about encouraging owners to take responsibility and to fulfil their responsibilities.

**The Convener:** We move on to non-domestic services.

**Adam Ingram:** We have not had much by way of comment on part 5 of the bill, but Consumer Focus Scotland raised concerns about the system of deemed contracts and particularly highlighted concerns about experiences of such systems in the energy industry. What assurances can you give us that such concerns will not arise in the water industry?

**Nicola Sturgeon:** I read Consumer Focus Scotland's evidence. I would be keen to understand a bit more about what lies behind its concerns, as I am sure the WICS would be, because I think that the bill's provision is a commonsense and important one. I have constituency experience, as I am sure others around the table have, of the problems that arise when there is no clarity about the contract between who supplies the water and who benefits from the supply. Such circumstances can arise regularly if water providers are changing. I therefore believe it to be a commonsense proposal to put in place the deemed arrangements if no arrangement exists. The WICS obviously has a part to play in the detail of that scheme. However, I would be happy to have a discussion with Consumer Focus Scotland to ensure that we fully understand its concerns and that we take whatever steps are necessary in the remainder of the bill process or in the work that will have to be done after the bill is enacted.

**Adam Ingram:** I have had difficulties with my constituency office in that regard, but we will not go into that.

Are you confident that the proposals in part 5 will prevent the problem of bad payers that is currently caused when new occupiers fail to inform the licensed provider when they have entered a property?

**Nicola Sturgeon:** I am not sure that any legislative system in any area where people get billed and are required to pay will deal with every instance of bad payers. There will always be a small number of people who do not pay or do not pay on time and who create issues in that way. By putting the onus on the landlord to notify the licensed provider when there is a change of

occupancy, the bill will make it harder for people to hide behind a lack of knowledge about who should pay and whom they should pay, just because the information has not been made clear. The bill will help in that regard, but whether it will completely solve the problem is another question.

**The Convener:** Margaret McCulloch has questions on the sewerage network.

12:15

**Margaret McCulloch:** Witnesses universally supported the proposals relating to passing pollutants and fat into the sewer network. However, several stakeholders have recommended that the list of premises that are to be inspected by Scottish Water and SEPA could be expanded from trade premises to include places such as schools and hospitals. Could that be revised?

**Nicola Sturgeon:** It is certainly possible to revise it. I will not give a commitment today to expand the list, because careful consideration must be given to the types of organisations and bodies that it is appropriate for the bill to cover. However, I am happy to consider any specific suggestions that have been made as we go through the next part of the process.

**Margaret McCulloch:** Issues have been raised about septic tanks. The provisions relating to the maintenance and repair of septic tanks could have implications for less well-off people who are connected to communal septic tanks, who might have to pay for repairs that they cannot afford. How will people be protected from being landed with substantial bills for septic tank repairs?

**Nicola Sturgeon:** The bill does not put obligations on people who do not already have them. It makes it easier for the repair or maintenance of a septic tank to go ahead even when somebody who has part-ownership is not prepared to sign up to that. That is a bit like the way in which individuals who live in tenements are responsible for the maintenance of their property. Nobody who currently does not have responsibility for the maintenance of a septic tank will be given that responsibility under the bill. The bill simply makes it easier to get repairs done even when not everybody signs up in advance. Again, that is a commonsense proposal.

**Margaret McCulloch:** We have heard from witnesses on that issue. The concern is that, for example, four households could share a tank that is broken, but only one person might be prepared to get the repair done. It would then be up to that individual to get the repair done, pay for it and, if the other three owners do not agree to pay, take them to court to recoup the money and so incur

court costs. That is a concern. Could you take those issues into consideration?

**Nicola Sturgeon:** Sure, but in a sense that is what the bill tries to do. It aims to enable one owner to comply with their statutory duties by getting repairs or maintenance done even when co-owners are not prepared to do that. I accept that that creates the scenario that you have talked about, but the only alternative to that is the current situation in which, because not every owner signs up in advance, a repair cannot be done. That is the problem with the current system.

It is important to stress that nobody who does not already have responsibilities and obligations for the maintenance of a septic tank will acquire those by virtue of the bill. The bill simply puts in place a system that allows repairs to be done by one or more owners, even when others stand in the way, and then to recover that cost. I think that that is better than having a lot of septic tanks that cannot be properly maintained and repaired because of the current situation in which everybody signs up or nobody signs up.

**The Convener:** Finally, we turn to water shortage orders. How often do you expect those orders to be used? Might their use increase in the future given the growing number of extreme weather conditions?

**Nicola Sturgeon:** I am not sure that my ability to see into the future is quite as well developed as that.

To give a serious answer to the question, I hope and envisage that the orders will be used very rarely, but if we thought that the orders would never ever have to be used, there would be no point in making statutory provision for them. They will be used sparingly and rarely. As the bill sets out, the case has to be made and the requirements that are set out in the bill must be met. We are setting out a robust process. The important point is that we are removing the term "drought" from the legislation, in recognition of the fact that other issues can potentially cause a water shortage. It is about bringing the language up to date and ensuring that a transparent and easily understood process is laid down in statute.

**The Convener:** It has been suggested that a water shortage order might have serious implications for vulnerable groups and for businesses that are dependent on water. What protection does the bill offer to those groups?

**Nicola Sturgeon:** If such an order was introduced, Scottish Water would have obligations to ensure that vulnerable people were catered for, as is the case just now if there are water shortages in an area. I think that the way in which Scottish Water currently operates covers that point, but I am happy to look at the drafting of the

bill on that, as with other aspects, to see whether that point might be made clearer.

On checking with my officials, I understand that we will also have a consultation, which will be another opportunity to look at that point.

**The Convener:** And what about businesses?

**Nicola Sturgeon:** In what context?

**The Convener:** For example, I think that the Scotch Whisky Association, whose representative I recognise in the public gallery today, might have some concerns about water shortage orders.

**Nicola Sturgeon:** We will be happy to talk to the Scotch Whisky Association about any concerns on the use of water shortage orders as well as about abstractions, which we considered earlier. We will need to ensure that, where the orders are used, the vulnerabilities and interests of individuals and businesses are properly catered for.

**The Convener:** If members have no further questions, that concludes our evidence at stage 1 of the Water Resources (Scotland) Bill. We will consider our draft report at a meeting in the very near future. I thank the cabinet secretary and her officials for their evidence this morning. I will briefly suspend the meeting to allow them to leave the room.

12:22

*Meeting suspended.*

12:22

*On resuming—*

## Subordinate Legislation

### Housing (Scotland) Act 2001 (Assistance to Registered Social Landlords and Other Persons) (Grants) Amendment Regulations 2012 (SSI 2012/258)

**The Convener:** Let us crack on. Agenda item 3 is subordinate legislation. The committee had been due to take evidence on the Housing (Scotland) Act 2001 (Assistance to Registered Social Landlords and Other Persons) (Grants) Amendment Regulations 2012, following our consideration of the instrument at our meeting on 31 October. However, the Scottish Government has since notified the committee of its intention formally to revoke the instrument. It is likely that the Scottish Government will make a further set of replacement regulations in the near future. The committee is invited to note the position and to take no further action in relation to the instrument. Is that agreed?

**Members** *indicated agreement.*

**Alex Johnstone:** That reinforces my faith in the negative procedure.

## European Union Reporter

12:23

**The Convener:** Agenda item 4 is on the appointment of a European Union reporter. On 9 December 2010, the Parliament agreed to introduce a Parliament-wide scheme for European Union engagement and scrutiny, including the introduction of an early warning system for EU legislative proposals, which requires subject committees to be responsible for appointing EU reporters and for scrutinising EU proposals within their area.

Following Aileen McLeod's move from the committee, it is necessary for us to appoint a new EU reporter. I refer members to paper 6 for today's meeting. At the committee's previous meeting, two members expressed an interest in the role and it was agreed that we would defer a decision until today. Can I invite nominations from members? Nominations do not need to be seconded.

**Adam Ingram:** I nominate Jim Eadie.

**Alex Johnstone:** I nominate Margaret McCulloch.

**The Convener:** We have two nominations, therefore it is necessary to vote.

**Malcolm Chisholm:** Can we have a discussion?

**The Convener:** Yes.

**Malcolm Chisholm:** This is a difficult decision, as both members are able, competent and well-qualified people for the post. We are in an enviable position in having to have a vote on such a matter. Apart from my colleague Margaret McCulloch's great competence and interest in the area, the fact is that the last two reporters have been members of the governing party. Given the stated wish of the SNP to govern as if it were a minority Government, that is a relevant consideration as members cast their votes today.

**The Convener:** Does anyone else want to make any observations?

**Adam Ingram:** My only observation is that it is good to have some competition for a change. We have generally had to twist somebody's arm to come forward for the post.

**Margaret McCulloch:** One of the reasons why I feel I should stand is that it would give a better balance to the committee. At the moment, the convener is a member of the SNP and we have another three SNP members on the committee, as well as me, Malcolm Chisholm and Alex Johnstone. The First Minister has said that he will operate the Government as if it were a minority

Government, so I had hoped that, in this case, that would prove to be the case.

**Jim Eadie:** I endorse Malcolm Chisholm's earlier comments about the suitability, capability and expertise of the two candidates. [*Laughter.*]

I am aware and fully supportive of the increased emphasis that Parliament has placed on scrutiny of EU legislation over the past two or three years. EU laws can be of significance to many policy areas for which MSPs have responsibility, and that is certainly the case regarding this committee. I am thinking specifically of public procurement, broadband and state aid—the digital agenda—various transport issues and water, to name but a few.

It is interesting to see the number of European initiatives and laws across the range of policy areas that dovetail with the legislative and policy agendas of both the Parliament and the committee. For example, we will see initiatives and legislation on public procurement coming from Parliament at the same time as they come from the European institutions. That is as topical and relevant for this committee as it is for all the parliamentary committees.

As I am a relatively new member of the Scottish Parliament and the committee, I hope to bring a fresh and inclusive perspective and approach, as well as an open mind, to working with colleagues across all the parties. I am mindful of the points that members have made about the need to recognise that this is a Parliament of all parties, not just one. I therefore offer reassurance to the committee that, if I am successful, I will seek to meet other members of the committee from all parties and will work collaboratively with them in taking forward the issues.

**Margaret McCulloch:** To finish off, based on what Jim Eadie says about working in partnership, I would have been happy to work in partnership with Jim Eadie, sharing the role with him as had initially been agreed. However, for whatever reason, the convener decided that that would not work. I just want to emphasise that I was more than happy to share the role and for us both to be EU reporters.

**The Convener:** I checked to see whether that was the situation in any of the other committees, but no other committee has joint EU reporters, so I think that it would probably be rather messy.

I do not think that we should conflate the Government and the Parliament. The committee structure was well laid out by the Parliamentary Bureau when Parliament was set up, and the composition of the committee reflects what the bureau agreed. How the Government approaches legislation is different from how Parliament operates.

I regret the fact that we are in this situation. Maybe it is my fault, because I had not noticed that Margaret McCulloch had a particular interest in European issues. We have two members who are interested in the job and should go straight to a vote.

The question is, that Jim Eadie be chosen as the committee's EU reporter. Are we agreed?

**Members:** No.

**The Convener:** There will be a division.

**For**

Jim Eadie (Edinburgh Southern) (SNP)  
Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)  
Gordon MacDonald (Edinburgh Pentlands) (SNP)  
Maureen Watt (Aberdeen South and North Kincardine) (SNP)

**Against**

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)  
Alex Johnstone (North East Scotland) (Con)  
Margaret McCulloch (Central Scotland) (SNP)

**The Convener:** The result of the division is: For 4, Against 3, Abstentions 0.

Jim Eadie will be our EU reporter.

That ends the business for today. At our meeting on 14 November we will hear from Scottish Water and the Water Industry Commission for Scotland, and we will have our first consideration of our draft budget report.

*Meeting closed at 12:31.*



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