



House of Commons
Scottish Affairs Committee

Work of the Committee in 2007

Fourth Report of Session 2007–08



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Report, together with formal minutes

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The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the office of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

Current membership

Mr Mohammad Sarwar MP (*Labour, Glasgow Central*) (Chairman)
Danny Alexander MP (*Liberal Democrat, Inverness, Nairn, Badenoch and Strathspey*)
Ms Katy Clark MP (*Labour, North Ayrshire & Arran*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Jim Devine MP (*Labour, Livingston*)
Mr David Hamilton MP (*Labour, Midlothian*)
Mr John MacDougall MP (*Labour, Glenrothes*)
Mr Angus MacNeil MP (*SNP, Na h-Eileanan An Iar*)
David Mundell MP (*Conservative, Dumfriesshire, Clydesdale and Tweeddale*)
Mr Charles Walker MP (*Conservative, Broxbourne*)
Mr Ben Wallace MP (*Conservative, Lancaster & Wyre*)

The following were also members of the Committee during the inquiry:

Gordon Banks MP (*Labour, Ochil & South Perthshire*)
Mr Jim McGovern MP (*Labour, Dundee West*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/scotaffcom. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Dr Sue Griffiths (Clerk), Jyoti Chandola (Second Clerk), Duma Langton (Committee Assistant), Karen Watling (Secretary), Becky Crew (Secretary) and Nicola McCoy (Secretary).

Contacts

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1 Introduction

1. This Report provides an overview of the work of the Scottish Affairs Committee in the calendar year 2007. All Departmental Select Committees now publish an annual report, detailing the work they have done. In most cases, these are structured around the ten ‘core tasks’ set for Select Committees by the Liaison Committee (the Committee of Chairmen of all Select Committees).¹ In the case of the Scottish Affairs Committee, as we have observed in previous years, the ten core tasks are difficult to map onto our remit, as devolution means that many responsibilities of the former Scottish Office were transferred to the Scottish Executive. For example, we are rarely involved in the scrutiny of draft legislation. However, we do take this opportunity to reflect on the overarching principles set out by the Liaison Committee and the ways in which we have fulfilled them over the past twelve months.

2. We have undertaken a range of work in the past year, which was dominated by our inquiry into *Poverty in Scotland*. The breadth and scope of this inquiry were extensive and we decided, therefore, to publish our Report in two volumes, the first of which appeared at the end of 2007.² On 3 May, elections to the Scottish Parliament and Scottish local government took place. These elections were marred by a high proportion of spoilt ballot papers. The Committee undertook to examine the reasons for this as a matter of urgency and our inquiry into what went wrong is ongoing. In July, we conducted our regular annual scrutiny of public expenditure by the Scotland Office, hearing evidence from the Secretary of State for Scotland, and in November we published a Report on the *Effects of tax increases on the oil industry*, stemming from evidence taken in Aberdeen and at Westminster.³ This Report provides a summary of our work in each of these areas.

3. A major political development of 2007 was the change of administration in Scotland. Following the Scottish Parliament elections in May 2007, the Scottish National Party (SNP) formed a minority government at Holyrood, taking over from the previous Labour/Liberal Democrat coalition. For the first time, the governing party at Westminster is not the largest party in the Scottish Parliament. This situation will undoubtedly affect the work of the Scotland Office, whose primary function is “to represent Scottish interests in the formulation of policy in reserved areas”.⁴ Indeed, during our evidence session on the Scotland Office Annual Report, the Secretary of State for Scotland, Rt Hon Des Browne MP said “It may well be that the current Scottish Executive may challenge us to do more and, if they challenge us to do more, then we may need to look at the particular capabilities and capacity that we have”.⁵ The change of administration will also have an impact on our own work, and we will be keen to scrutinise the effect of ‘cohabitation’ on the operation of devolution.

¹ See Liaison Committee, First Report of Session 2002–03, *Annual Report 2002–03*, HC 558 (2002–03), Appendix 3.

² Scottish Affairs Committee, Second Report of Session 2007–08, *Poverty in Scotland*, HC 128–I.

³ Scottish Affairs Committee, First Report of Session 2007–08, *Effects of tax increases on the oil industry*, HC 35.

⁴ Scotland Office, *Scotland Office and Office of the Advocate General for Scotland: Annual Report 2007*, Cm 7109, p.3.

⁵ Oral evidence taken before the Scottish Affairs Committee on 17 July 2007, HC 943–i (2006–07), Q 3.

2 Poverty in Scotland

4. Our inquiry into Poverty in Scotland began at the end of 2006, with a visit to the Highland Region and a formal evidence session in Inverness. The inquiry set out to examine issues such as:

- What is poverty?
- The extent of poverty
- Contributing factors
- Impact of Government policy on poverty

It covered poverty in both urban and rural areas of Scotland and also included the availability of affordable money and the activities of loan sharks, as well as major Government programmes, such as *Welfare to Work*.

5. We went on to take formal evidence at a further nine public sessions. Throughout the inquiry, we were concerned to undertake visits to see at first hand the impact of poverty and its effects on the lives of Scots. In 2007, we visited Dundee, Glasgow and Edinburgh to take evidence from individuals and organisations involved in the fight against poverty as well as becoming the first Westminster Select Committee to take evidence from a Minister of the Scottish Executive after the change of administration in May.⁶ Our final evidence session was with Ministers from the Department for Work and Pensions and HM Treasury and took place on 27 November.⁷

6. Our inquiry into poverty was extremely wide-ranging and so we decided to publish our Report in two volumes. At the end of 2007, we published a Report focusing on issues surrounding the definition and measurement of poverty; the effectiveness of Government policy in rural and urban communities and the problems of fuel poverty and debt. The Committee also received considerable evidence on the subject of child poverty. The reduction of child poverty is the aim of high-profile Government targets, whose success or failure will affect not only those currently living in poverty, but generations to come. We therefore decided to produce a separate Report on this important subject, which we expect to publish early in the new year.

7. Our first Report on poverty was published on 17 December 2007.⁸ We chose to launch the Report at the Pearce Institute, Govan, Glasgow, a community centre we had visited in the course of the inquiry. We invited all those who had given evidence to the inquiry to discuss our findings as well as the media. The event was very successful and the Report was well received. We hope that our Report will help to ensure that the issue of poverty remains high on the political agenda.

⁶ Scottish Affairs Committee, Second Report of Session 2007–08, *Poverty in Scotland*, HC 128–II, Qq 814–865.

⁷ *Ibid.*, Qq 866–920.

⁸ Scottish Affairs Committee, Second Report of Session 2007–08, *Poverty in Scotland*, HC 128–I.

8. Our Report concluded that, despite recent reductions in poverty, there was still more to be done. We welcomed the introduction of the minimum wage and Tax Credits, but recommended that the Government should do more to ‘poverty-proof’ its policies across the board and to work co-operatively with the Scottish Executive and Scottish local government. Rural poverty, fuel poverty and debt were particular focal points for this inquiry. Each of these areas raised distinct issues. Our Report concluded that, despite good intentions, there is a lack of integration and too much administrative complexity which is hampering the fight against poverty. We look forward to receiving the Government’s response to our Report in due course.

3 Experience of the Scottish elections

9. On 3 May 2007, elections to the Scottish Parliament and Scottish local government took place. For the first time, a combined ballot paper was used for the election of both list and constituency Members of the Scottish Parliament. The local government elections employed a Single Transferable Vote (STV) system. Electronic counting was used extensively to produce the results.

10. As the election results were announced, it became clear that there was a very high rate of spoiled ballots. The complexity of the system and the decision to combine ballot papers were called into question and the Electoral Commission decided to commission an independent review of the elections to determine what went wrong. This was headed by Ron Gould CM, a Canadian elections expert. Mr Gould published his report in October, finding that “the voter was treated as an afterthought” in planning the elections and that key decisions had been taken at the last minute.⁹

11. In November, we took evidence from the Electoral Commission and from the Scotland Office in the light of the independent review.¹⁰ We will hear from Ron Gould, author of the review, and his colleague Michael Boda in the new year. The Government is currently consulting on the proposals for reform made by the independent review team, and we hope that our evidence will be regarded as an important contribution to this consultation. We were deeply concerned by the events of 3 May. Neither partisan political interest nor bureaucratic delay can be allowed to undermine the UK’s long democratic tradition.

⁹ Ron Gould CM, *Independent review of the Scottish Parliamentary and local government elections 3 May 2007*, The Electoral Commission, October 2007.

¹⁰ Oral evidence taken before the Scottish Affairs Committee on 13 November 2007, HC 78–i.

4 Expenditure

12. Scrutiny of departmental expenditure is one of the key tasks of select committees. We are committed to holding an annual oral evidence session with the Secretary of State at the Scotland Office each year to scrutinise the department's expenditure, as reflected in the Departmental Annual Report, as well as its plans for the future. This year, we took evidence in July from Rt Hon Des Browne MP, as well as the Minister of State, David Cairns MP and Dr Jim Wildgoose, Head of the Scotland Office. We published the transcript of that session, as well as associated written evidence, on 23 October.¹¹

13. The large majority of the Scotland Office's expenditure consists of funding for the Scottish Executive's budget, determined by the population-based Barnett formula. The Executive makes its own spending decisions on devolved programmes within the overall totals, subject to approval by the Scottish Parliament. In 2007–08, £24.6 billion is to be paid as a grant to the Scottish Consolidated Fund for the Scottish Executive block grant and £6.468 million is provided for administration of the Scotland Office and Office of the Advocate General for Scotland.

14. This year's oral evidence session focused on the role of the Scotland Office after devolution. The Scotland Office told us that it acts to promote bilateral co-operation and co-ordination between Whitehall and the Scottish Executive and ensure that Scotland's interests in relation to reserved areas are known and represented within the UK Government. We explored the operation of the Barnett Formula, which governs the funding allocated to the Scottish Executive, and relations with the new administration.

5 Effects of tax increases on the oil industry

15. Between June and October 2006, we had taken oral evidence in three sessions (including one in Aberdeen) on the *Effects of tax increases on the oil industry*. We called these sessions after major changes in the North Sea fiscal regime had been implemented. We heard from representatives of the oil industry and officials from the Treasury, as well as receiving written evidence from specialists.

16. By the summer of 2007, we understood that the Treasury and the industry were engaged in dialogue regarding the North Sea fiscal regime. We asked both parties whether they had anything to add to the evidence that we had taken in the previous year and received responses describing the positive engagement that was now in place. We therefore proceeded with the publication of our Report, welcoming the constructive relationship that had emerged.¹²

17. Our Report concluded that there was a perception of fiscal instability within the industry, although the actual effects of any tax increases would be difficult to isolate from

¹¹ Oral evidence taken before the Scottish Affairs Committee on 17 July 2007, HC 943-i (2006–07).

¹² Scottish Affairs Committee, First Report of Session 2007–08, *Effects of tax increases on the oil industry*, HC 35.

other factors, such as the nature of the oil and gas fields, the underlying geology and future oil and gas prices. We recommended that any further changes to the fiscal regime should seek to improve stability and predictability, without harming the UK's already competitive position or depriving the UK Government of a fair share in the economic rent from the exploitation of its natural resources. We also concluded that changes to the tax system should aim to make the system simpler to administer both for companies and HM Revenue and Customs. A simple regime that is consistent and predictable will be of most benefit to the industry and the UK in the long term.

6 Employment and skills for the defence industry in Scotland

18. At the end of 2007, we announced a substantial new inquiry for 2008 on *Employment and skills for the defence industry in Scotland*. The inquiry was prompted by the announcement in July 2007 of a £7.7bn increase in the defence budget over three years. £3.8bn of this will be spent on two 65,000 tonne Royal Navy aircraft carriers. A significant proportion of the construction will take place in Scotland and the order for the carriers will be completed at yards on the Clyde and at Rosyth. The Secretary of State was reported as saying that the contract would support or create 10,000 jobs, including those at shipyards across the UK.

19. In the context of the £3.8bn contract for new aircraft carriers, we decided to consider how Scotland can maximise the opportunities arising from defence construction contracts, including the contract for the new aircraft carriers. Our inquiry will examine:

- the Scottish skills base: the adequacy of the current skills base, the provision of training and the balance between specialist and transferable skills for future defence industry needs;
- the distribution of jobs and economic benefit across Scotland; and
- the opportunities for associated industries and the wider supply chain, including small businesses across Scotland.

We will report on the findings of this inquiry in next year's Annual Report.

7 Conclusion

20. The Scottish Affairs Committee has a wide remit in terms of subject matter, looking at the operation of a range of reserved matters in Scotland. In 2007, as in most years, this has meant tackling a number of different areas, from poverty to defence. We have combined this with our core scrutiny function of monitoring the performance and expenditure of the Scotland Office. We look forward to a busy year in 2008.

Formal Minutes

Tuesday 22 January 2008

Members present:

Mr Mohammad Sarwar, in the Chair

Ms Katy Clark

David Mundell

Mr Jim Devine

Work of the Committee in 2007

Draft Report (*Work of the Committee in 2007*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House

Ordered, That the Chairman do make the Report to the House.

[Adjourned till Tuesday 29 January at 11am

List of Reports from the Committee during the current Parliament

The following publications have been produced by the Scottish Affairs Committee since the beginning of the 2005 Parliament:

Session 2007–08

First Report	Effects of tax increases on the oil industry	HC 35
Second Report	Poverty in Scotland	HC 128
Third Report	Child Poverty in Scotland	HC 277

Session 2006–07

First Report	Work of the Committee in 2006	HC 308
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Session 2005–06

First Report	Work of the Committee in 2005	HC 836
Second Report	Meeting Scotland's Future Energy Needs: the Westfield Development Centre	HC 1010
Third Report	<i>Putting Citizens First</i> : the Report from the Commission on Boundary Differences and Voting Systems	HC 924
Fourth Report	The Sewel Convention: the Westminster perspective	HC 983
First Special Report	Meeting Scotland's Future Energy Needs: Government Response to the Committee's Second Report of Session 2005–06	HC 579
Second Special Report	The Sewel Convention: the Westminster perspective: Government Response to the Committee's Fourth Report of Session 2005–06	HC 1634