



House of Commons  
Scottish Affairs Committee

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# The work of the Committee in 2008–09

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**First Report of Session 2009–10**

*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 offices 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)  
Mr Alistair Carmichael MP (*Liberal Democrat, Orkney and Shetland*)  
Ms Katy Clark MP (*Labour, North Ayrshire & Arran*)  
Mr Ian Davidson MP (*Labour, Glasgow South West*)  
Mr Jim Devine MP (*Labour, Livingston*)  
Mr Jim McGovern MP (*Labour, Dundee West*)  
David Mundell MP (*Conservative, Dumfriesshire, Clydesdale and Tweeddale*)  
Lindsay Roy MP (*Labour, Glenrothes*)  
Mr Charles Walker MP (*Conservative, Broxbourne*)  
Mr Ben Wallace MP (*Conservative, Lancaster & Wyre*)  
Pete Wishart MP (*Scottish National, Perth and North Perthshire*)

The following members were also members of the Committee during the parliament.

Danny Alexander MP (*Liberal Democrat, Inverness, Nairn, Badenoch and Strathspey*)  
Gordon Banks MP (*Labour, Ochil and South Perthshire*)  
Mr David Hamilton MP (*Labour, Midlothian*)  
Mr John MacDougall MP (*Labour, Glenrothes*)  
Mr Angus MacNeil MP (*Scottish National, Na h-Eileanan an Iar*)

### 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](http://www.parliament.uk).

### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee are on the Internet at [www.parliament.uk/scotaffcom](http://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 Nerys Welfoot (Clerk), Alison Groves (Second Clerk), Briony Potts (Committee Assistant), Becky Crew (Committee Assistant), Karen Watling (Committee Assistant) and Tes Stranger (Committee Support Assistant).

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# 1 Introduction

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1. This Report reviews the work of the Scottish Affairs Committee during the parliamentary Session 2008–09.

2. Departmental Select Committees scrutinise the expenditure, administration and policy of the department to which they relate. In this mould, the Scottish Affairs Committee's remit lies in scrutiny of the Scotland Office and the offices of the Advocate General for Scotland. However, as a result of the Scotland Act 1998 and the Scottish Parliament receiving full legislative powers on 1 July 1999, much of what other committees can and do scrutinise lies outside of our remit. This also applies when referring to the Liaison Committee's set of ten "core tasks"; whilst most are applicable to the work of the Scottish Affairs Committee, not all reflect the scope of the Committee's remit. However, the Committee has been given an important additional role by the House of Commons in Standing Order No. 152: establishing and maintaining relations with the Scottish Parliament on behalf of the House.

3. During the 2008–09 parliamentary Session the Committee made frequent visits to Scotland. In January 2009 we travelled to Glasgow to meet stake-holders in, and ask questions about, the 2014 Commonwealth Games, an event to which all Members of the Committee extend their full support. In February 2009 we held a meeting with the Scottish Parliament EU and External Relations Committee in Glasgow. We travelled again to the city in May 2009 for the launch of our Report on *Credit Unions in Scotland*. In early July 2009 we launched our Report on *Crisis in the Scottish Press Industry* in Glenrothes, and then travelled on to Glasgow to meet informally union representatives to discuss proposals for the restructuring of Diageo's Scottish business. In late July we launched our Report on *Dunfermline Building Society* in Glasgow, and in October 2009 we travelled to Edinburgh to launch our Report *Enforcement of the National Minimum Wage in Scotland*. As part of our inquiry into Banking in Scotland we travelled to Ireland in November 2009.

4. We held three separate meetings with delegations from the Chinese Ministry of Finance. These meetings allowed Members to explain their work in the context of devolution, and enabled both parties to learn more about the workings of each others devolved systems of government.

5. In the 2008–09 Session, we concluded five inquiries and launched two major new inquiries. The Government is required to reply to select committee reports within two months. An Annex is attached showing the conclusions and recommendations from the Scottish Affairs Committee Reports, and the Government's responses, where received.

## 2 The Committee's activities in relation to the "core tasks"

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### Introduction

6. Three of the ten "core tasks" of select committees are to scrutinise draft bills published by the Scotland Office, to consider major appointments made by the Secretary of State for Scotland and to examine treaties within the committees' subject areas. Scotland has a separate Parliament with extensive legislative competence. In the 2008–09 Session, the Scotland Office published no draft bills (and no Bills relating exclusively—or indeed substantively—to Scotland were introduced), there were no major appointments by the Scotland Office which required consideration by the Committee, and no treaties within the Committee's subject area were concluded. In addition, the Scotland Office has no public service agreements; and therefore no monitoring was required by the Committee. The remaining core tasks are dealt with in turn below.

### To examine expenditure and performance, and to take evidence from each Minister at least annually

7. We remain committed to holding an annual oral evidence session with the Secretary of State for Scotland in order to scrutinise the Scotland Office's expenditure and performance. We took evidence on 8 July 2009 from Rt Hon Jim Murphy MP, Secretary of State for Scotland, Ann McKeichin MP, Parliamentary Under Secretary of State for Scotland and Mr John Henderson, Deputy Director of the Scotland Office.

### To consider major policy initiatives

#### *The Commission on Scottish Devolution*

8. The Commission on Scottish Devolution was established by the Scottish Parliament and the United Kingdom Government in 2008 with, as its remit;

To review the provisions of the Scotland Act 1998 in the light of experience and to recommend any changes to the present constitutional arrangements that would enable the Scottish Parliament to serve the people of Scotland better, improve the financial accountability of the Scottish Parliament, and continue to secure the position of Scotland within the United Kingdom.<sup>1</sup>

9. The Commission began work in 2008, distributing 150,000 information leaflets, receiving over 300 written submissions and holding both public and private evidence sessions. A First Report was published in December 2008, setting out the Commission's progress. The Final Report was published in June 2009 entitled *Serving Scotland Better: Scotland and the United Kingdom in the 21<sup>st</sup> Century*.

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1 Commission on Scottish Devolution, *Serving Scotland Better: Scotland and the United Kingdom in the 21<sup>st</sup> Century*, June 2009, p 3

10. We held an oral evidence session on 11 February 2009 with Sir Kenneth Calman, Chairman of the Commission, Professor Jim Gallagher, Commission Secretary and Paul Kett, Head of Secretariat, during which we questioned the witnesses on the findings of the Commission's First Report.

11. A further oral evidence session was held on 6 July 2009 in Glasgow following the publication of the Commission's Final Report. Sir Kenneth Calman and Professor Jim Gallagher gave evidence on the Report's recommendations and on Scotland's future in the context of this report.

12. The Secretary of State for Scotland has set up a Steering Group to take forward work on the recommendations of the Calman Commission Final Report. We have agreed to keep a watching brief on the work of the Steering Group and to consider the Government's response to the Final Report of the Calman Commission.<sup>2</sup> There is also an inter-parliamentary dimension to the recommendations of the Commission, particularly in Part Four of its Report. We hope to work with the Procedure Committee on examining the implications for the procedure and practice of the House of Commons of some of these ideas.

### **To consider the Government's response to major emerging issues; and to propose changes where evidence persuades the Committee that present policy requires amendment**

#### ***Credit Unions in Scotland***

13. As part of our 2007 inquiry into *Poverty in Scotland*, we looked at the issue of debt, and found that "a thriving industry has grown up based upon making money from the poor and those who lack [...] financial education."<sup>3</sup> One of the conclusions reached by us was that "the impact of high cost lending could be mitigated by greater access to affordable lending."<sup>4</sup> It was in this context that we announced an inquiry into *Credit Unions in Scotland*. We looked at the future for credit unions in Scotland, the problems of financial exclusion, financial literacy and affordable lending. Credit unions are co-operative organisations which allow members to save and borrow money, as well as having a statutory role of providing financial education. Participation in credit unions is higher in Scotland than in the UK as a whole.

14. During our inquiry we heard from representatives of the Scottish Parliament Cross-Party Cross-Parliamentary Group on Tackling Debt, Citizens Advice Scotland, South Lanarkshire Credit Union Network, Association of British Credit Unions Limited, Scottish League of Credit Unions as well as from Ian Pearson MP, Economic Secretary, HM Treasury. We also travelled to Lanarkshire in October 2008 to meet representatives from credit unions.

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2 The Government's White Paper, *Scotland's Future in the United Kingdom: Building on ten years of Scottish devolution*, was published by the Scotland Office on 25 November, Cm 7738

3 Scottish Affairs Committee, Second Report of Session 2007-08, *Poverty in Scotland*, HC 128-I, para 128

4 HC (2007-08) 128-I, para 129

15. Our Report was published on 18 May 2009. It supported the work of credit unions, and concluded that they were valuable for both communities and individuals alike. We found that provision of low-cost, responsibly-lent finance was crucial to mitigating the debt crisis that affects parts of Scotland and we considered that saving should be encouraged in order to ensure future generations of financially responsible people.<sup>5</sup> We also concluded that both Government support and public awareness were needed if credit unions were to expand their services and reach a wider group of beneficiaries.<sup>6</sup> We recommended that the Government provide funding to promote credit unions across the UK as part of a financial education strategy.<sup>7</sup> We welcomed the proposed legislative changes that Government intended to make to allow credit unions to offer a more modern service. We noted that credit unions interest rates on loans are capped at 26.8% and we recommended that the Government introduce a cap on interest rates for all financial institutions to help tackle the problem of the extortionate interest rates that are being charged by some lenders.<sup>8</sup>

16. The Government's response to the Committee's Report was received on 15 July 2009. Whilst the response was generally positive, we were disappointed that the Government chose to reject our recommendation of a cap on interest rates. We felt that this matter was of a great concern to customers, especially in the current economic climate.<sup>9</sup>

### ***Crisis in the Scottish Press Industry***

17. Scotland is one of the most competitive markets for newspapers, with 17 daily papers serving a population of 5 million. We launched a short inquiry in March 2009, looking at the issues facing the Scottish press industry. That month we took evidence from the Scottish Trades Union Congress, National Union of Journalists, University of Stirling and Cardonald College, Glasgow. In May 2009 we heard from Newsquest, Trinity Mirror plc, *The Scotsman* newspaper, Scottish Daily Newspaper Society, and Johnston Press. We also received a memorandum from the Scotland Office on this issue.

18. We published our Report on 13 July 2009.<sup>10</sup> We expressed concern at the increasing trend for Scottish local authorities to move public notices and job vacancies away from traditional print media towards online public sector portals. We concluded that the Scottish newspaper industry was an integral part of Scottish culture and that the Scottish Executive and the UK Government should ensure that the industry was not made unviable through overbearing competition. The industry must be able to adapt itself to create sustainable business models.<sup>11</sup>

19. We received the Government's response to its report on 16 September 2009 and we welcomed the Government's view that local authorities should not have a policy of

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5 Scottish Affairs Committee, Second Report of Session 2008–09, *Credit Unions in Scotland*, HC 128, p 3

6 HC (2008–09) 128, paras 74–75

7 HC (2008–09) 128, para 35

8 HC (2008–09) 128, para 32

9 Scottish Affairs Committee, Second Special Report of Session 2008–09, *Credit Unions in Scotland: Government Response to the Committee's Second Report*, HC 982

10 Scottish Affairs Committee, Fourth Report of Session 2008–09, *Crisis in the Scottish Press Industry*, HC 401

11 HC (2008–09) 401, para 29

publishing notifications only online, but should also be expected to place notifications, such as job advertisements, by other appropriate means, if necessary.<sup>12</sup>

### ***The Banking Crisis in Scotland and Dunfermline Building Society***

20. Since the financial crisis deepened in autumn 2008, we have been increasingly concerned at the impact on Scottish financial institutions. We took evidence in a one-off session in December 2008 on the implications for the Scottish economy of the current economic climate.<sup>13</sup> As part of ongoing scrutiny into the financial sector, we announced an inquiry into the Banking Crisis in Scotland on 26 February 2009. We initially decided to look at the implications of the merger between Lloyds Banking Group and HBOS, the operation of banks in Scotland following the recent developments in the UK banking sector and the provision of banking services to the public in the current economic climate.

21. Subsequent to the evidence sessions we held in March, we decided to widen the inquiry to look at the effect of the banking crisis on jobs, banking services to the public and small business lending in Scotland, the effect of the failure of Scottish banks and building societies on the international reputation of Scotland's banking sector and the effectiveness of measures put in place by the UK Government to tackle the impact of the banking crisis and to aid recovery in Scotland. Evidence sessions started in November 2009.

22. We travelled to Ireland from 8–10 November 2009 to examine the operation of banks and provision of banking services in a neighbouring country that has also suffered from the failure of its banks.

23. Part of the fallout from the recession was the intervention of the Bank of England, the Financial Services Authority and HM Treasury, “the tripartite authorities”, into Dunfermline Building Society, which occurred in March 2009.

24. We heard evidence from a variety of sources on the circumstances leading to the failure of Dunfermline Building Society (DBS) including representatives from the previous Board of DBS, Nationwide Building Society (to whom core parts of DBS were transferred) and the tripartite authorities. We published our Report on 30 July 2009. Our overall conclusion was that the responsibility for the fate of DBS lay with the Board of the Society which took the risk of diversifying into areas traditionally outside a building society's core business. Poor project management had also made a significant contribution to the failure of the Society.<sup>14</sup> However, we found that the Financial Services Authority (FSA) had failed to give adequate specific warnings to the Dunfermline Building Society to justify the assertion that it was repeatedly warned about the dangers of commercial lending. We concluded that the FSA failed wholly to discharge its duties to protect the interests of investors and savers.<sup>15</sup> The FSA disagreed with our conclusions.

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12 Scottish Affairs Committee, Third Special Report of Session 2008–09, *Crisis in the Scottish Press Industry: Government Response to the Committee's Fourth Report*, HC 981

13 Uncorrected transcript of oral evidence taken before the Scottish Affairs Committee on 10 December 2008, HC (2008–09) 38–i

14 Scottish Affairs Committee, Fifth Report of Session 2008–09, *Dunfermline Building Society*, HC 548, para 87

15 HC (2008–09) 548, para 54

25. The Government's response to the Report was received on 2 October 2009, and the Financial Services Authority submitted a response on 6 October 2009. These were published as annexes to our First Special Report.<sup>16</sup>

### **Enforcement of the National Minimum Wage in Scotland**

26. In late 2008 we agreed to hold a one-off evidence session on the enforcement of the national minimum wage in Scotland. Her Majesty's Revenue and Customs (HMRC) provided a memorandum but informed us that HMRC "does not retain statistics at a regional level relating to the sectors in which employers were found to be non-compliant with NMW legislation."<sup>17</sup> On 22 March 2009 however, the *Sunday Times* published an article on Scottish businesses by sector breaching national minimum wage regulations, based on HMRC figures obtained through a Freedom of Information request. Following the publication of the article, we held evidence sessions with the Financial Secretary from the Treasury and officials from HM Revenue and Customs. We also took evidence from two of the trade organisations from the sectors identified as having the highest levels of non-compliance with national minimum wage regulations in Scotland.

27. We published our Report on 26 October 2009. It examined the issues of HMRC investigations in Scotland, tipping practices and raising awareness of the minimum wage. We were concerned that the sectors with the highest levels of non-compliance in Scotland have not shown a reduction in the numbers of complaints despite the efforts of the Government to raise awareness of the national minimum wage, and concluded that more needed to be done by the relevant sectors, HM Revenue and Customs and the Department for Business, Innovation and Skills to publicise both the rates of the national minimum wage and the penalties that exist for non-compliance.<sup>18</sup> We also concluded that all employers who are found to be non-compliant with national minimum wage legislation should be "named and shamed" to discourage other employers from breaking the law.<sup>19</sup>

28. Finally, we expressed our disappointment at discovering that the *Sunday Times* had obtained statistics, relating to the sectors in Scotland in which employers had been found to be non-compliant with NMW legislation, through a request under the Freedom of Information Act when this information had previously been denied to us by HM Revenue and Customs.<sup>20</sup> Stephen Timms MP, Financial Secretary to HM Treasury, when giving evidence to us, apologised for not sending the information to us in the first place. He explained that advice from the Information Commissioner subsequent to the Government's memorandum had led HMRC to collate information on a regional level where it had not done so previously. He then apologised for HMRC not sending the information to us at the time it answered the *Sunday Times*' FOI request. HMRC officials told us that a lack of communication between teams which had led to this oversight.

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16 Scottish Affairs Committee, First Special Report of Session 2008–09, *Dunfermline Building Society: Government Response to the Committee's Fifth Report*, HC 979

17 Scottish Affairs Committee, Sixth Report of Session 2008–09, *Enforcement of the National Minimum Wage in Scotland*, HC 380, para 1

18 HC (2008–09) 380, para 57

19 HC (2008–09) 380, para 33

20 HC (2008–09) 380, para 14

29. Whilst we accepted Mr Timms' apology and explanation, we remained concerned that a newspaper was able to obtain data under the Freedom of Information Act when a select committee had been told that it was not available. In our Report we reminded the Government of the Resolution of the House of 19 March 1997 which includes the principle that Ministers should be as open as possible with Parliament.<sup>21</sup> We also brought this matter to the attention of the Chairman of the Liaison Committee.

### ***Scottish Transport Links and the Credit Crunch***

30. We held a one-off evidence session on 21 April 2009 investigating Scottish transport links and the credit crunch. Mr Robert Boyle, Director of Strategy and Business Units, British Airways, Mr Alec McTavish, Director of Policy and Operations, Association of Train Operating Companies and Lord Adonis, Minister of State for Transport, gave evidence. The Committee examined the current situation for rail and air travel from Scotland to England, and asked questions regarding infrastructure and investment in these routes. We also asked about any future plans to these services, and discussed ways in which Scottish people have been affected by the economic downturn.<sup>22</sup>

### **To take evidence from independent regulators and inspectorates, and consider the reports of Executive Agencies**

#### ***Work of the Equality and Human Rights Commission, Scotland***

31. The Equality and Human Rights Commission was established by the Equality Act 2006 and came into being on 1 October 2007. The Commission works to “eliminate discrimination, reduce inequality, protect and promote human rights and to build good relations, ensuring that everyone has a fair chance to participate in society.”<sup>23</sup> We conducted a brief inquiry into the role of the Commission in Scotland and how its work relates to other Scottish and UK bodies. We received oral and written evidence from the Scottish Directorate of the Commission, whose role is to “inform the GB-wide Commission and make sure that its approaches and strategies are appropriate for Scotland.”<sup>24</sup>

32. Our Report was published on 30 June 2009. We recommended that the Scottish Directorate of the Commission take up the need for developing and funding legal advice and assistance in the equality field with the Scottish Government, and that the Scottish Directorate of the Equality and Human Rights Commission takes forward its plan to publish its own strategic plan.<sup>25</sup>

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21 HC Deb, 19 March 1997, cols 1046-47

22 Oral evidence taken before the Scottish Affairs Committee on 21 April 2009, HC (2008-09) 412-i

23 Equality and Human Rights Commission Scotland, [www.equalityhumanrights.com/scotland/](http://www.equalityhumanrights.com/scotland/)

24 Scottish Affairs Committee, Third Report of Session 2008-09, Work of the Equality and Human Rights Commission, Scotland, HC 176, Q 2

25 HC (2008-09) 176, paras 33 and 36

### ***Financial Services Authority***

33. As part of our inquiry into Dunfermline Building Society, we held an oral evidence session with the Financial Services Authority (FSA), during which we questioned representatives about the work of the FSA in relation to the failure of the Society.<sup>26</sup>

## 3 Future work of the Committee

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### Introduction

34. In the 2009–10 Parliamentary Session we will continue our inquiry into the Banking Crisis in Scotland. It is likely that the economic situation in Scotland, as for the rest of the UK, will be a priority concern for us in the months to come. We will examine the Government's response to the Final Report of the Commission on Scottish Devolution and will keep a watching brief on the work of the Secretary of State's Steering Group on this matter. We will also maintain an interest in examining the changes made to the legislation governing credit unions.

### *Scotland and the UK: co-operation and communication between Governments*

35. On 21 October 2009 we announced our latest inquiry, into cooperation and communication between the Scottish and UK Governments when the UK Government formulates international policy that specifically affects Scottish interests and devolved matters.<sup>27</sup> We will particularly be looking at whether there are effective channels of communication between the Scottish Executive and UK Government, whether arrangements exist to assess the impact of UK foreign policy on Scottish interests. This inquiry will incorporate the previously announced Scotland and the EU inquiry, and written evidence already received will form a vital part of this new inquiry.

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<sup>27</sup> "Scottish Affairs Committee announces new inquiry", Scottish Affairs Committee Press Notice No. 38 of 2008–09, 21 October 2009

# Annex

## Government Response Table<sup>28</sup>

### *Credit Unions in Scotland, Second Report, HC (2008-09) 218*

PUBLISHED 18 MAY 2009, GOVERNMENT RESPONSE PUBLISHED 1 NOVEMBER 2009 (SECOND SPECIAL REPORT (HC 982 2008-09))

Conclusion/Recommendation	Government Response
<p><b>THE ROLE OF CREDIT UNIONS IN THE CURRENT ECONOMY</b></p> <p>1. We applaud the efforts of credit unions to act as responsible lenders (Paragraph 28)</p> <p><b>INTEREST RATE CAPPING</b></p> <p>2. We recommend that the Government introduce a cap on interest rates for all financial institutions (Paragraph 32)</p>	<p>On 2 July the Government published a consumer White Paper “A Better Deal for consumers”. This aims to help people to take control of their personal finances, offer advice to those in debt, deal with sharp business practice and help vulnerable people cope with essential bills. We have set out a new approach to consumer credit that learns the lessons from recent events and aims to help consumers make better borrowing decisions.</p> <p>Specifically, new legislation will ban credit card companies from issuing unsolicited credit card cheques; there will be new rules on checking the creditworthiness of borrowers; a review will be carried out on whether additional regulation of credit cards is required; and there will be a review of high cost credit to ensure that customers are treated fairly when they borrow.</p> <p>The Government recognises the legitimate concerns about exploitation of borrowers especially on low incomes but we do believe there are significant pitfalls of capping interest rates.</p> <p>In the run up to the Consumer Credit Act 2006, the then Department for Trade and Industry (now the Department for Business, Innovation and Skills) commissioned research into the impact of interest rate caps in other countries. Interest rate caps limit competition in the market and restrict access to credit.</p>

28 A Government response to the Committee's First Report (2008-09) was not required

	<p>Rate caps reduce transparency for consumers as firms generate more revenue through fees and charges. They also reduce firms' ability to lend to consumers they see as higher risk, driving poorer consumers to use illegal lenders. Research shows that in Germany and France, where interest rate caps exist, the incidence of illegal lending is twice as high as in the UK.</p>
<p>3. Legislation must be introduced in a way which does not worsen the situation of those dependent on high-rate loans; if necessary, financial assistance should be given to ensure that no borrower is disadvantaged by the regulatory change. Such legislation should seek to ensure that lenders could not introduce extra hidden costs to compensate for lower interest rates. (Paragraph 33)</p>	<p>The Government has no plans to introduce a cap on interest rates.</p>
<p>4. It is important that credit unions are supported in their endeavours to attract those with higher incomes and savings who might not previously have considered using a union. We recommend that the Government provide funding to promote credit unions across the United Kingdom to a wider public as an integral part of a comprehensive strategy of financial education. (Paragraph 35)</p>	<p>Some credit unions are now able to offer insurance products, child trust funds, cash ISAs, ATM services, direct debits and standing orders. As the number of credit unions able to offer such services increases more members may be attracted to switch from their current banks.</p> <p>The Government recognises the role of education in improving levels of financial capability. Important, too, is kick-starting a saving habit. From 2010, the Government is introducing Saving Gateway accounts for working age people on lower incomes. This should provide a strong incentive for people to save through financial institutions, which could include credit unions.</p>
<p><b>DEREGULATION</b></p> <p>5. We welcome the legislative reform proposals addressing the long held concerns of credit unions, specifically those which will enable interest rates to be paid on savings, to encourage more people to save with credit unions, and the introduction of group memberships. It is good to know that the Government is paving the way for a more modern credit union service through changing legislation. However, we should guard against any additional changes which make credit unions one more rootless financial institution. The pegs in the ground should be a clear sense of the group or community to which the union belongs, and the principle of ensuring that the union members invest in the organisation. (Paragraph 40)</p>	<p>The legislative proposals are enabling. Credit unions are democratic organisations where members have a say in whether a merger should take place.</p>
<p>6. We look forward to the publication by the Government of draft legislation on</p>	<p>The draft legislation will be published shortly.</p>

<p>regulatory reform of credit unions as soon as possible. (Paragraph 51)</p>	
<p><b>UNIFIED SERVICES</b> 7. We recommend that the Association of British Credit Unions Limited, or individual credit union networks, consider introducing standardised products where possible, to build up public familiarisation with credit union products. (Paragraph 54)</p>	<p>Treasury have been in contact with ABCUL regarding the points raised. They are in favour of the recommendation and have already made some positive steps.</p> <p>ABCUL has launched a unified product in the Credit Union Current Account which is available from 23 credit unions across the UK, including 5 in Scotland. While each credit union runs their own accounts and their name appears on their members' VISA Debit cards, the branding of the Credit Union Current Account is standardised across the sector, and ABCUL contracts The Co-operative Bank to provide the back office services for running the accounts.</p>
<p><b>MERGERS</b> 8. Mergers are a matter for individual credit unions, but we hope that, when these decisions are made, the importance of retaining access for members to some local services is not forgotten. (Paragraph 56)</p>	<p>Merger is not a decision taken lightly by a credit union's governance team; making sure that current and future members will retain a similar level of access to credit union services is high on the agenda when discussing these issues.</p>
<p>9. The Government should ensure that the differences between different types of credit union are recognised in its legislative proposals. Mergers between credit unions with different types of common bond should be considered extremely carefully to ensure that services and membership can be combined without difficulties. (Paragraph 57)</p>	<p>Many of the most successful credit unions have resulted from mergers between credit unions with different types of common bonds, so this is not something which should be assumed is a problem. A credit union which takes its membership from a range of different groups creates diversity within its membership. This is essential to create a sustainable credit union which can effectively meet the needs of its poorest members. Members of the credit unions involved in any merger will have the final say in whether the merger should go ahead. This will prevent mergers which are not in the best interest of existing members.</p>
<p><b>ACCESS TO SERVICES</b> 10. We recommend that the Government introduce a requirement on local authorities to ensure that an appropriate percentage of commercial premises in busy locations is let to non-profit organisations at a suitable rate. There should also be an obligation on local authorities to make premises owned by local authorities available to credit unions if they are vacant. (Paragraph 59)</p>	<p>Local government is a devolved matter and such a decision would be for the Scottish Government to consider.</p>
<p><b>CURRENT ACCOUNTS</b> 11. We wholeheartedly support the recommendation of the Treasury Select Committee that the Government should provide funding assistance to credit unions specifically to assist in the establishment of current accounts. We encourage credit unions and the</p>	<p>Since November 2006 the Government has invested over £1.5m through the Financial Inclusion Growth Fund to support 17 credit unions in offering the Credit Union Current Account. 23 credit unions now offer the service, 5 of those in Scotland, and over 17,000 credit union members in the UK now have accounts. The accounts are run and promoted by the individual credit unions. The IT and</p>

<p>Post Office to work together to establish the best way to provide bank account facilities for the financially excluded and welcome the work already done towards meeting this aim. (Paragraph 64)</p>	<p>administration is carried out by The Cooperative Bank.</p> <p>The Post Office is in discussion with ABCUL to see what opportunities there might be for the two organisations to work more closely together to increase financial inclusion. The Government is also keen to encourage greater collaboration between the Post Office and credit unions.</p>
<p><b>WIDER SERVICES</b> 12. While we support the principle of credit union expansion, we do not think offering services such as mortgages can or should be a priority for credit unions in the UK in the short-term future. (Paragraph 66)</p>	<p>The decision as to what products to offer is a commercial arrangement for firms.</p>
<p><b>GOVERNMENT FUNDING</b> 13. The UK Government should seek to ensure that Scottish credit unions are fully aware of the Growth Fund and how to apply to it. (Paragraph 69)</p>	<p>Growth Fund contracts are targeted at the high priority areas identified by the Financial Inclusion Taskforce's Third Sector Credit Working Group report, and are advertised through the Now Let's Talk Money and DWP Growth Fund websites as well as through direct contact from DWP's Growth Fund team with credit unions and CDFIs serving those areas. In addition, the Scottish Financial Inclusion Champions team work with credit unions to identify opportunities for them to better serve their local communities and increase the availability of affordable credit.</p>
<p>14. Consideration should be given by the Scottish Executive to raising the level of ring fenced credit union funding to ensure that they are able to provide the services they offer to all those in need of them. (Paragraph 70)</p>	<p>This recommendation is for the Scottish Government to address.</p>
<p><b>A CENTRAL CREDIT UNION</b> 15. We recommend that the Government fund a study of the merits of a central credit union service. (Paragraph 71)</p>	<p>The Government understands that ABCUL is exploring a range of ways in which this could be achieved. "A new central service organisation to support and enhance the role of credit unions" was a key recommendation of the PAT 14 report, launched in 1999 by the Economic Secretary, Melanie Johnson MP.</p>
<p><b>FINANCIAL EDUCATION</b> 16. We applaud the financial education work of credit unions, and urge other bodies engaged in similar work to look to credit unions as partners in outreach work. The Government should consider providing funding for credit unions purely for financial education, given the importance of such work during a "credit crunch". Any formal qualification gained should be duly recognised wherever possible under the Scottish Credit Qualifications Framework. (Paragraph 73)</p>	<p>In July 2008 the Government and the FSA published a joint action plan for financial capability across the UK. The action plan set out a range of measures including:</p> <ul style="list-style-type: none"> <li>• a generic financial advice or Money guidance service;</li> <li>• a planned programme of personal finance education; and</li> <li>• a range of Government programmes focusing on improving financial capability, particularly for those most vulnerable to poor financial decision making.</li> </ul>

	<p>In England financial capability and economic well being is now part of Personal, Social, Health and Economic (PSHE) education which is set to become statutory. To support the curriculum reforms, £11.5m has been provided to boost personal finance education in schools in England.</p> <p>Given that education is devolved in Scotland, the Scottish Executive received an associated allocation of funds through the Barnett formula—it is for them to decide how these funds are spent. Scotland does not have a statutory curriculum, but financial education is included as a cross-cutting theme in the Curriculum for Excellence. The FSA are working with the Scottish Centre for Financial Education (SCFE) to build its capacity so that it can provide free support to schools and teachers across Scotland.</p> <p>Formalisation of any financial education through qualifications would be for the Scottish Government to consider.</p>
<p><b>CONCLUSION</b></p> <p>17. During the course of our inquiry, we have heard a great deal about the importance of credit unions to the communities they serve and the success of the services they offer. With more Government support, we believe that these benefits could be brought to a wider range of beneficiaries. It would be a great shame if Scotland lost momentum in maintaining a participation rate above that of the UK as a whole because of a lack of support from the Government. (Paragraph 74)</p>	<p>Government welcomes the contribution that credit unions together with other mutual societies make in providing for greater choice and diversity in the financial services sector. The Government values the role that mutuals play in society and wishes to see them flourish.</p> <p>The Government has set aside £80m over five years (2006–11) from the Financial Inclusion Fund as a Growth Fund for credit unions and community development finance institutions (CDFIs). A further £18.75m was announced in the Budget and confirmed in the Consumer White Paper, bringing the total to almost £100m. The fund is providing these community based lenders with additional capital to on-lend to those on low incomes in areas of high financial exclusion, and the revenue support to cover the costs of this service—more than 160,000 affordable loans have been made to financially excluded customers since the start of the Fund in July 2006.</p> <p>The proposed changes to the legislation will be for the benefit of the mutual sector and will equip them with a modern framework to enable them to continue their good work in the future.</p>
<p>18. The expansion of services, in particular the introduction of the Credit Union Current Account, is a very welcome development. We are not however</p>	<p>The Association of British Credit Unions Ltd is the main trade association for credit unions in Britain which promotes the work of credit unions.</p>

<p>convinced that they will be able to reach beyond the current range of services until serious efforts can be made to publicise their work beyond the areas in which they have traditionally operated. It is vital that credit unions are able to present a “united front” to the public, to raise awareness of their important work. (Paragraph 75)</p>	
<p>19. We remain concerned by the interest rates charged by some financial institutions, which strike a contrast with the responsible lending of credit unions, and we hope this report clearly contributes to the growing dissatisfaction across the UK about the poor financial deal offered to those on low incomes in a time of recession. (Paragraph 76)</p>	<p>The Government recognises the need to do more to help hard pressed consumers— helping people to take control of personal finances is key to emerging stronger from the downturn. The Consumer White Paper, <i>A Better Deal for Consumers</i>, published on the 30<sup>th</sup> June 2009, contains a range of measures including:</p> <ul style="list-style-type: none"> <li>• Extra £18.75m to the Growth Fund which supports lenders like credit unions. This is in addition to £80m already provided.</li> <li>• Review of whether credit card lenders should be subject to greater regulation to protect the indebted.</li> <li>• Ban on unsolicited credit card cheques.</li> <li>• Review of high cost credit.</li> <li>• New requirements on lenders to explain their products and check credit worthiness of borrowers.</li> <li>• But Government decided against cap on interest rate since lenders might substitute other penalties and borrowers might resort to illegal money lenders.</li> </ul>

**Work of the Equality and Human Rights Commission, Scotland, Third Report, HC (2008-09) 176**

REPORT PUBLISHED 30 JUNE 2009, GOVERNMENT RESPONSE NOT YET PUBLISHED

Conclusion/Recommendation	Government Response
<p><b>ENFORCEMENT POWERS</b></p> <p>1. We recommend that the Scottish Directorate of the Commission for Equality and Human Rights use their position as a UK body having a specific remit for Scotland to take up with the Scottish Executive the provision of legal advice and assistance in the equality field. (Paragraph 31)</p>	
<p><b>CONCLUSION</b></p> <p>2. We recommend that the Scottish Directorate of the Commission take up the need for developing and funding legal advice and assistance in the equality field with the Scottish Government. (Paragraph 33)</p>	
<p>3. We recommend that the Scottish Directorate of the Equality and Human Rights Commission takes forward its plan to publish its own Scottish strategic plan, setting out how it intends to prioritise and resource its work in tackling both Scottish aspects of the Commission's Britain-wide goals and the specifically Scottish issues relevant to its remit which it has identified. (Paragraph 36)</p>	

***Crisis in the Scottish Press Industry, Fourth Report, HC (2008-09) 401***

REPORT PUBLISHED 13 JULY 2009, GOVERNMENT RESPONSE PUBLISHED 9 NOVEMBER 2009 (THIRD SPECIAL REPORT (HC 981(2008-09))

Conclusion/Recommendation	Government Response
<p><b>DECLINE IN ADVERTISING</b></p> <p>1. Whilst it is understandable that local authorities will want to reduce costs in the current economic climate, there are concerns that advertising jobs on public sector portals only was likely to limit the field of applicants to those already in the public sector rather than the wider audience of traditional print media. (Paragraph 9)</p>	<p>While this recommendation is mainly addressed to local authorities, the Government takes the view that there should not be a policy of publishing notifications only online. Part of the duty when placing notices, such as job advertisements, is that they are effective in reaching their target population. The Government recognises that online can be a good and effective means for accessing information, but individual bodies are also expected to place notifications, such as job advertisements, by other appropriate means, if necessary.</p>
<p>2. We are concerned at suggestions of a move to publish public notices on public sector portals whilst broadband take-up remains relatively low in some areas of Scotland. We would ask the Convention of Scottish Local Authorities and the Scottish Executive to produce evidence that substantial parts of the population would not be excluded before removing public notices entirely from print media. (Paragraph 10)</p>	<p>As above, the Government's view is that there should not be a policy of publishing public notices only online. While notifying bodies have a duty to be efficient, they must also use appropriate means to reach their target audience, and should not adopt a policy of publishing online simply to save money. The Communications market Report, published by Ofcom, on 6 August 2009 noted that the proportion of households in Scotland with a broadband connection increased from 53% in Q1 2009 to 60% in Q1 2009, compared with 68% across the UK as a whole. It should be noted that while broadband is, in general terms, a great benefit for its users and the economy, it is not strictly required to access online-published notifications, or job advertisements.</p>
<p><b>WELLBEING OF NEWSPAPER STAFF</b></p> <p>3. We are concerned at the reported levels of stress in the current press industry and we welcome the Johnston Press's commitment to act upon the results of the health and safety audit made by the National Union of Journalists. We would urge the National Union of Journalists to share the results of the audit with the management of all Scottish newspaper groups as soon as possible to enable those groups to respond with an action plan to tackle the problems highlighted by the audit. (Paragraph 14)</p>	<p>This recommendation is a matter for the press industry.</p>

<p><b>EFFECT OF THE CURRENT SITUATION ON THE INDUSTRY</b></p> <p>4. We note the concerns that have been raised that the restructuring of the industry may have put at risk the Scottish press industry's ability to deliver the high level quality of journalism that the public has grown to expect and that is necessary to properly scrutinise local and regional affairs. (Paragraph 26)</p>	<p>This is ultimately a matter for the press industry, however your Report does reference the final reports of Digital Britain and the Review of local and regional media merger regime.</p> <p>In respect of the regional and local online and offline press, the Interim Digital Britain Report invited the OFT, in conjunction with Ofcom to review the operation of the newspaper media mergers regime.</p> <p>During that Review, there were representations from industry and others that regional and local newspapers are in crisis. Structural changes brought about by the advent of the Internet, coming together with the economic challenges of the current international climate, have created very significant changes in markets in which local and regional titles have operated.</p> <p>The OFT's conclusions, published in parallel with the Final Digital Britain report., acknowledge the very significant structural and cyclical changes facing local and regional media. The OFT set out a number of clarifications to the operation of the regime which should be helpful to the sector and propose to amend its guidance to ensure a new Local Media Assessment, conducted by Ofcom, takes place in cases relating to local media mergers involving one or more local or regional newspapers which raise <i>prima facie</i> competition concerns.</p> <p>Representations were made to the OFT that the media public interest provisions should be altered, for example to include the need for 'independent investigative journalism' as a consideration. The review notes that public interest considerations have never so far been used in respect to regional or local press mergers, but the OFT recommends that BIS should consider these representations, as well as take account of the ongoing Ofcom review of Media Ownership Rules. The Government has discussed this point about the public interest test with the OFT and Ofcom. The Government has concluded that the existing framework provides an adequate mechanism for considering the importance of having a source of independent news and reporting at a local and regional level across the UK. At the most basic level the competition authorities' guidance suggests it is unlikely that they would reach a finding of a substantial lessening of competition (SLC) in a situation where, in the absence of a specific proposed merger, the last remaining title or titles in an area would close. This should protect communities against the risk of losing their independent reporting voice as a result of the merger control process.</p>
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The Communications Act 2003 requires Ofcom to conduct a statutory review of the media ownership rules every three years. Ofcom are not undertaking such a review and are expected to report back later this year.

The Government has asked Ofcom in this current review to consider specifically the impact of the current local ownership rules on the longer term sustainability of the local media market. The media ownership rules are a layer or constraint over and above the competition rules set out in the media mergers regime. The Government believes that an arguable case could now be made for greater flexibility in the local radio and cross-media ownership rules to support consolidation of local media groups which taken together would allow for greater economies of scale and a sustainable local voice alongside that of the BBC. For example, a local radio station and a local newspaper could consolidate and share news gathering resources, reduce overheads and help build local brands through cross-promotion.

The Government looks forward to the evidence based recommendations from Ofcom's review and stands ready to bring forward an Order to give effect to any necessary changes to the local media ownership rules.

#### Independently funded News Consortia

The Digital Britain Report also set out proposals to create independently funded news consortia to ensure continued high quality independent nations, local and regional news in addition to the BBC's provision.

The Report says the Government intends to pilot IFNCs in Scotland, Wales and one English region. The emphasis will be on quality and independence. Such consortia will be more than just a replacement for regional television news. However, while multiplatform news will be a crucial feature, it makes sense to continue to take advantage of the Channel 3 licence schedule for news across each nation, locally and regionally to build on the existing reach and scale of access to audiences.

The Government is currently consulting on funding options which also looks at the possibility of a contained contestable element of the television licence fee to fund IFNCs in the longer term. This consultation closes at the end of September.

<p><b>CONCLUSION</b></p> <p>5. We conclude that the Scottish newspaper industry is an integral part of Scottish culture which is highly valued both by its readers and by the institutions that it scrutinises. Under pressure from the current economic climate, diminishing advertising revenues and the explosion of alternative news and information sources in electronic format, the industry has been forced to dramatically restructure itself, often at great cost to its dedicated and knowledgeable staff. It is vital that both the Scottish Executive and the UK Government ensure that the Scottish newspaper industry is not made unviable through overbearing competition from public sector advertising, and that the industry able to adapt itself to create sustainable business models, through consolidation and mergers subject to the appropriate safeguards, whilst maintaining high quality, varied and independent journalism that reflects the Scottish identity. (Paragraph 29)</p>	<p>The Government's view is that the provision of news content needs to reflect changing consumer patterns, and that people must be able to access news in a variety of ways such as on the web and by mobile phone, as well as in print. Maintaining varied and independent journalism to provide high quality news content that reflects the Scottish identity is a high priority.</p>
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**Dunfermline Building Society, Fifth Report, HC (2008-09) 548**

REPORT PUBLISHED 30 JULY 2009, GOVERNMENT RESPONSE PUBLISHED 20 OCTOBER 2009 (FIRST SPECIAL REPORT (HC (2008-09) 979)

Conclusion/Recommendation	Government Response
<p>1. While the Board of Dunfermline Building Society believed that it was responding to a desire amongst its members for it to compete effectively in the market, we believe it failed to communicate to them that the moves to diversify into the commercial lending business brought higher risks as well as higher returns. (Paragraph 23)</p> <p>2. We conclude that it would not be possible for the average member of the Dunfermline Building Society to glean from the Members Review that a serious failing in project management, rather than changes in technology, had led to the £9.5m loss. It is clear to us that, in its management of the Dunfermline Solutions project, the Board of Dunfermline Building Society lost control and allowed spiralling increases in costs which arguably amounted to a breach of the duties owed to the Society's membership. Therefore, we find it disingenuous that the £9.5m loss written off on Project Destiny was described in the Members Review as "excellent progress". (Paragraph 28)</p>	<p>A number of the conclusions and recommendations in the Committee's Report relate solely to the conduct of the Dunfermline's management and Board, and we have not sought to address these directly. The Committee should be aware that whilst the Government will continue to consider how to best protect UK depositors and taxpayers, it is important that those involved in the building society sector also contribute their views on the future of the sector. In the 'Reforming Financial Markets' paper published earlier this summer, we announced the formation of a building societies experts group. This group is considering questions raised by the problems experienced by the Dunfermline about how building society governance could be improved, as well as examining important questions around future of building society capital and how shared operating models could contribute to societies.</p>
<p>3. There is a clear difference of opinion between witnesses over whether £30m, £60m or more would have been sufficient to secure Dunfermline Building Society's long-term future. This is a question that we are not qualified to answer. This was the first time that the Special Resolution Regime was used. Therefore, the Tripartite Authorities should undertake a review of how the Regime operated, and that review should look at the interaction between the Tripartite Authorities and at the decision making processes. (Paragraph 45)</p>	<p>As the Committee notes, this was the first time that the special resolution regime (SRR) established by the Banking Act 2009 had been used to resolve a failing institution. It is the Government's view that the resolution of the Dunfermline Building Society was successful in meeting the SRR objectives established in section 4 of the Act.</p> <p>As the Committee knows, the resolution of a failing bank or building society requires intensive coordination, cooperation and information sharing between the Authorities at each stage of the decision-making process. Each of the Authorities takes lead responsibility for specified aspects of the resolution. The FSA is responsible for making the independent regulatory decision that the institution meets the conditions (set out in section 7 of the Act) for entry into the SRR. In the case of Dunfermline, the FSA made a regulatory judgment that the</p>

	<p>Dunfermline was likely to fail its threshold conditions; and that it was not reasonably likely that action would be taken by or in respect of the Dunfermline Bank and the Treasury, the FSA therefore determined that the firm should enter the SRR. This was an independent regulatory judgment taken by the FSA, considering the threshold conditions set out in the Financial Services and Markets Act. The Bank of England is responsible for the operation of the SRR, including the decision on which of the SRR tools to use, and its implementation (with the exception of the power to take an institution into temporary public ownership). In the case of Dunfermline, having considered a range of options and consulted with the other Authorities, the Bank decided on an appropriate course of action for the building society using the SRR tools. The Treasury is responsible for decisions with implications for public funds, for ensuring the UK's ongoing compliance with its international obligations, and for matters relating to the wider public interest, and in this regard the Treasury worked closely with the other Authorities during the course of the resolution of the Dunfermline.</p> <p>The Government believes that action taken by the Authorities was effective and well coordinated, resulting in a successful resolution. However, the Government will continue to keep all aspects of the operation of the Banking Act under review.</p> <p>The SRR Code of practice<sup>1</sup> sets out further details about how the Authorities go about achieving the objectives. The Government is currently consulting with the Banking Liaison Panel (established under section 10 of the Act) on how the Code of Practice can usefully be updated to provide further guidance and clarity to industry and to the wider public around the use of the SRR powers, building in part on the experience of the Dunfermline resolution.</p>
<p><b>4. On the evidence we have received, we conclude that the Financial Services Authority failed to give adequate specific warnings to the Dunfermline Building Society to justify the assertion that it was repeatedly warned about the dangers of commercial lending. Warnings need to be specific to the institution being addressed and must be given in terms that savers and investors can understand. The Financial Services Authority should further ensure that the institution communicates these warnings to its members. In all these aspects, the Financial Services Authority failed wholly to discharge its duties to protect the interests of investors and savers. However, this does not excuse the Society from its</b></p>	<p>Whilst the Government shares the Committee's regret at the fate of the Dunfermline Building Society, the Government continues to value the contribution to diversity and competition in banking services that the mutuals sector brings to the UK economy. As the sector's long history shows, the traditional retail-based building society business model has been resilient to economic turbulence. However, Dunfermline ran into trouble when it strayed from this model without the expertise and capacity to fully understand and manage the risks of doing so.</p>

<p>responsibility to recognise that the higher returns gained from commercial lending came with a higher risk or that it was not responsible for its own downfall. We look forward to the results of the consultation on the Financial Service Authority's additional guidance for building societies which should make explicit the risks involved in moving away from traditional patterns of lending. (Paragraph 54)</p>	<p>The Authorities will continue to take the steps that are needed to protect depositors and consumers, ensure financial stability, and safeguard the use of public funds—and will use the Special Resolution Regime again if it is necessary. The FSA has also proposed measures (through its new sourcebook for building societies, which has just closed to consultation but is available in draft on the FSA's website) to strengthen the sector, reduce societies' future vulnerability to difficult market conditions, and ensure that societies are appropriately equipped to play a central role in UK financial services in future. If implemented, these measures should provide further protection for depositors and taxpayers by further limiting the risk of failure.</p>
<p>5. Whatever the shortcomings of the Tripartite Authorities' communications with Dunfermline Building Society, it was the Board that had dug the hole in which the Society found itself. We do not intend to adjudicate on these competing claims, but only express our expectation that the Financial Services Authority needs to examine the lessons for the future very critically. For Dunfermline Building Society, it is too late. (Paragraph 59)</p>	<p>The Government agrees with the Committee's conclusion about the responsibility of the Dunfermline Board for the firm's predicament. The Government's responses to the issues raised by the Committee on reviewing the operation of the SRR and communication by the authorities are detailed at its response to paragraphs 45 (above) and 88 (below).</p>
<p>6. Based on the evidence from the Tripartite Authorities and Nationwide, it is obvious to us that it was not possible for Dunfermline Building Society to remain independent. However, whilst there may be differences in the circumstances leading to the difficulties in which the West Bromwich and Dunfermline Building Societies found themselves in, when preparing a review of the lessons learned from the first use of the Special Resolution Regime, the Tripartite Authorities should confirm whether a solution such as the capital instrument used in West Bromwich's case was considered as a viable option for saving the Dunfermline Building Society. (Paragraph 79)</p>	<p>Where a firm is in difficulty the FSA works with the firm to find solutions to the challenges that it is facing. In doing so, they explore the options for private sector solutions, which can include capital restructuring. Whether this is a viable option will depend on the circumstances of the case. The timeline of events specifically in respect of Dunfermline was set out in Lord Turner's published letter to the Chancellor of 17 April 2009.</p>
<p>7. In the words of the former Chairman of Dunfermline Building Society, the ultimate responsibility for the plight that Dunfermline found itself in lay with the Board of the Society. The poor project management of Dunfermline Solutions made a significant contribution to the failure of the Society. (Paragraph 87)</p> <p>Whilst the nature of the Special Resolution Regime will be that the Tripartite Authorities have to move quickly and confidentially to preserve market confidence, it is regrettable that, in the first instance it was used, the banking institution at the heart of the negotiations felt that it was kept in the dark about</p>	<p>The Financial Services Authority have detailed their supervisory approach to the Dunfermline in Lord Turner's letter to the Chancellor of 17th April, and are providing a separate response to the Committee's Report. As part of their duties, directors of building societies also need to be familiar with and ensure compliance with regulatory standards.</p> <p>Regarding communication with the firm, there are clearly risks in making explicit disclosure to building society directors—given the potential for alarm and unintended consequences of disclosure—before the Authorities had decided whether, and if so, how, to act. However, throughout this period the Authorities</p>

<p>the very standards and criteria it was having to meet to guarantee its future independence. If any bank or building society is unfortunate enough to suffer the same fate as the Dunfermline Building Society, the Tripartite Authorities must consider whether it is necessary to hold the banking institution at arm's length, or whether a more beneficial outcome might be achieved if all parties are fully aware of the standards expected to be met. (Paragraph 88)</p> <p>In the years running up to the transfer, the Financial Services Authority failed to provide the necessary level of supervision over the Dunfermline Building Society and to issue clear and specific warnings. As a consequence, savers and investors were left unaware of the true position of the Dunfermline Building Society and of its possible implications. It appears that at no time did the Society's commercial lending portfolio feature as a real concern, and the Board was confident that it had the necessary capital provision to see it through a once in 25 years type recession. It is hard to see how the Society could have improved its position once the global financial crisis intensified in October 2008. Whilst Dunfermline Building Society chose the path of riskier lending, it cannot be said that it was given more than a general warning by the FSA. We look forward to the results of the FSA's consultation on a new code of practice which was issued in June, and which is hoped will provide clear guidance to building societies of the risks involved in straying outside their traditional remit. Only time will tell whether the level of capital provision demanded by the Financial Services Authority was justified, or whether the commercial lending portfolio of the Society would have made back the money given time. (Paragraph 89)</p> <p>From the information provided in the Annual Report and Members Review for 2007-08, it would not be clear to the Dunfermline Building Society's members that the higher returns for commercial lending would be accompanied by a higher risk. It was also not clear that the loss of £9.5m on a major IT project was due to a serious failure of management. There can be no doubt that the decisions taken by the management of the Society led it into difficulties. (Paragraph 90)</p> <p>The fact remains that a heavy price has been paid as a consequence of the Board of Dunfermline Building Society taking the risk of diversifying into areas that were traditionally outside a building society's core business. Whether or not Dunfermline Building Society's long-term future could have been saved with a capital injection part funded by the Government, Dunfermline Building Society's</p>	<p>worked together closely developing their response. In accordance with its responsibilities under the Financial Services and Markets Act 2000 for the authorisation and regulation of financial firms, the Financial Services Authority was the lead authority for liaison with the Dunfermline Building Society's management.</p>
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<p>actions necessitated intervention from the Tripartite Authorities at a cost to the taxpayer that might have been avoided by a more cautious approach. With the transfer of Dunfermline Building Society's core assets to Nationwide, the international reputation of the Scottish banking sector was dealt another blow as 150 years of independence as a mutual society was brought to an end (Paragraph 91)</p>	
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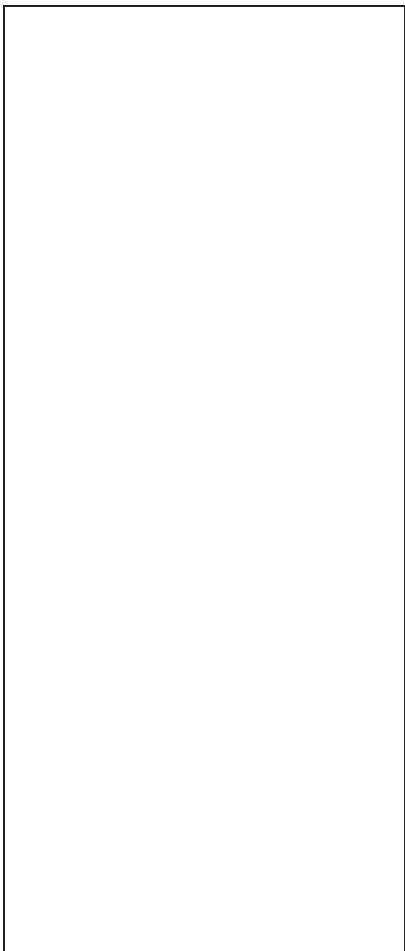
**Enforcement of the National Minimum Wage in Scotland, Sixth Report, HC (2008–09) 380**

PUBLISHED ON 26 OCTOBER 2009, GOVERNMENT RESPONSE NOT YET RECEIVED

Conclusion/Recommendation	Government Response
<p><b>ARTICLE IN THE SUNDAY TIMES</b></p> <p>1. We recommend that Her Majesty’s Revenue and Customs ensure that the proper procedures are put in place to ensure that select committees are provided with the most comprehensive information, within reason, that is available. We will bring this matter to the attention of the Chairman of the Liaison Committee. (Paragraph 14)</p>	
<p><b>INVESTIGATIONS MADE BY HMRC IN SCOTLAND</b></p> <p>2. In its response to this Report, we invite the Government to update us on whether or not HM Revenue and Customs in future decides to collate information on the age of individual underpaid workers. (Paragraph 16)</p> <p>3. In its response to this Report, we invite the Government to provide us with a breakdown of the number of cases of non-compliance between the businesses found within “other services” per year from 2002–03 to the present day. (Paragraph 21)</p>	
<p><b>“NAMING AND SHAMING” NON-COMPLIANT EMPLOYERS</b></p> <p>4. The Government has made the right decision to accept the Low Pay Commission’s recommendation to name and shame employers who wilfully disregard the national minimum wage. We recommend that this should apply to all employers who are found to be non-compliant with national minimum wage legislation. We further recommend that the Government clarify how it will implement this change and publish further guidance on how HMRC will judge whether an employer has “wilfully” disregarded the national minimum wage. (Paragraph 33)</p>	
<p><b>TIPPING</b></p> <p>5. We invite the Government, in its response to this Report, make clear how it will encourage businesses, particularly those not affiliated to a trade association, sign up to the Code of Best Practice on Service Charges, Tips, Gratuities and</p>	

	Cover Charges. (Paragraph 38)
	<p><b>INFORMATION PROVIDED BY TRADE ASSOCIATIONS TO THEIR MEMBERS</b></p> <p>6. We conclude that HMRC should give consideration to targeting advice and assistance to trade associations in sectors where relatively high levels of non-compliance are identified. (Paragraph 42)</p> <p>7. We urge trade associations in the sectors showing the highest levels of non-compliance to continue to provide guidance and advice to their members on the National Minimum Wage and to send the strong message that non-compliance is damaging to the reputation of the sector as a whole. (Paragraph 43)</p>
	<p><b>THE 2008 PUBLICITY CAMPAIGN</b></p> <p>8. We would welcome an update on the publicity campaign held in 2009, and in particular an assessment of the success of the outreach project in Scottish areas. (Paragraph 48)</p>
	<p><b>TARGETED ENFORCEMENT CAMPAIGNS</b></p> <p>9. It is difficult to assess to what extent the targeted enforcement campaigns have been successful in raising awareness of the national minimum wage, particularly as the hospitality industry enforcement campaign was not completed. The increasing figures for non-compliance in some sectors in Scotland suggest that the message is not getting through. The British Hospitality Association, National Hairdressers' Federation and National Day Nurseries Association told us that they would welcome further interaction with HM Revenue and Customs and the Department for Business, Innovation and Skills, and we recommend that the Government continue its dialogue with these industries to tackle the problem of non-compliance. (Paragraph 55)</p> <p>10. In its response to this Report we invite the Government to provide an assessment of its targeted enforcement campaigns so far and include an update on what future campaigns are planned for the sectors with the highest levels of non-compliance. (Paragraph 56)</p>
	<p><b>CONCLUSION</b></p> <p>11. We remain concerned that the sectors with the highest levels of non-compliance in Scotland have not shown a reduction in the numbers of complaints received despite the efforts of the Government to raise awareness of</p>

the national minimum wage. Although the evidence does not suggest that there are higher levels of non-compliance in Scotland as compared with the rest of the UK, this does not mean that we can be complacent. We conclude that more needs to be done by the relevant sectors, HM Revenue and Customs and the Department for Business, Innovation and Skills to publicise both the rates of the national minimum wage and the penalties that exist for non-compliance. The Government must assess whether further targeted enforcement campaigns would be worthwhile and must work on this with representatives of the sectors with the highest levels of non-compliance. A system of naming and shaming employers who are found to be non-compliant would be a further disincentive to break the law. It would also enable consumers to have greater confidence that the services they are paying for are fully compliant with national minimum wage legislation. (Paragraph 57)



# Formal Minutes

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**Wednesday 25 November 2009**

Members present:

Mr Mohammad Sarwar, in the Chair

Mr Ian Davidson

Lindsay Roy

Mr Jim Devine

Pete Wishart

Mr Jim McGovern

Draft Report (*The work of the Committee in 2008-09*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 35 read and agreed to.

Annex agreed to.

*Resolved*, That the Report be the First Report of the Committee to the House.

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

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

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[Adjourned till Wednesday 2 December at 2 p.m.]

## List of Reports from the Committee during the current Parliament

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2008–09

First Report	Work of the Committee in 2007–08	HC 55
Second Report	Credit Unions in Scotland	HC 218 (HC 982)
Third Report	Work of the Equality and Human Rights Commission, Scotland	HC 176
Fourth Report	Crisis in the Scottish Press Industry	HC 401 (HC 981)
Fifth Report	Dunfermline Building Society	HC 548 (HC 979)
Sixth Report	Enforcement of the National Minimum Wage in Scotland	HC 380

### Session 2007–08

First Report	Effects of tax increases on the oil industry	HC 35 (HC 376)
Second Report	Poverty in Scotland	HC 128 (HC 525)
Third Report	Child Poverty in Scotland	HC 277 (HC 525)
Fourth Report	Work of the Committee in 2007	HC 278
Fifth Report	Experience of the Scottish Elections	HC 78 (HC 1098)
Sixth Report	Employment and Skills for the Defence Industry in Scotland	HC 305 (HC 830)

### 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 (HC 579)
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 (HC 1634)