

AUDIT COMMITTEE

Wednesday 26 September 2007

Session 3

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AUDIT COMMITTEE 4th Meeting 2007, Session 3

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Claire Baker (Mid Scotland and Fife)
*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*Trish Godman (West Renfrewshire) (Lab)
*Hugh Henry (Paisley South) (Lab)
*Jim Hume (South of Scotland) (LD)
*Stuart McMillan (West of Scotland) (SNP)
*Andrew Welsh (Angus) (SNP)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
James Kelly (Glasgow Rutherglen) (Lab)
Iain Smith (North East Fife) (LD)
Sandra White (Glasgow) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Mark Diffley (Audit Scotland)
Graeme Greenhill (Audit Scotland)
Andra Laird (Audit Scotland)
John Lincoln (Audit Scotland)
David Pia (Audit Scotland)

CLERK TO THE COMMITTEE

Tracey Reilly

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Rebecca Lamb

LOCATION

Committee Room 2

Scottish Parliament

Audit Committee

Wednesday 26 September 2007

[THE DEPUTY CONVENER *opened the meeting at 10:00*]

Interests

The Deputy Convener (Murdo Fraser): Good morning, and welcome to the fourth meeting of the Audit Committee in the third session of the Scottish Parliament. I remind members to turn off mobile phones and pagers.

I welcome three new members to the committee. There has been quite a changeover, and it is appropriate to record our thanks to the outgoing convener, Charlie Gordon, for his work in the brief period for which he served as convener. We wish him success in his new role—well, perhaps not too much success, but some success.

In accordance with section 3 of the members' code of conduct, I invite the new members to declare any interests that are relevant to the committee's remit. I will go round the three new members in alphabetical order.

Claire Baker (Mid Scotland and Fife) (Lab): I have nothing to declare.

Trish Godman (West Renfrewshire) (Lab): I have nothing to declare.

Hugh Henry (Paisley South) (Lab): I have nothing to declare.

Convener

10:01

The Deputy Convener: Item 2 on the agenda is the choice of committee convener. Parliament has agreed that only members of the Scottish Labour Party are eligible for nomination as convener of the Audit Committee. I ask for a nomination for the position of convener.

Andrew Welsh (Angus) (SNP): I nominate Hugh Henry.

The Deputy Convener: As only one nomination has been received, I ask the committee to agree that Hugh Henry be chosen as convener of the Audit Committee.

Hugh Henry was chosen as convener.

Murdo Fraser (Mid Scotland and Fife) (Con): Congratulations, Hugh, on your new appointment.

The Convener (Hugh Henry): Thank you, Murdo. I look forward to working with the committee. Andrew Welsh has assured me that, despite what others might say, the committee is challenging, exciting and interesting. I know that from talking to previous committee members Margaret Jamieson and Mary Mulligan, who particularly enjoyed their time on the committee. I look forward to the discussions that we will have and to the scrutiny that we will be able to bring to matters of some significance.

Decision on Taking Business in Private

10:03

The Convener: Item 3 on the agenda is a decision on taking business in private. Are we prepared to take in private the discussion on our approach to the Auditor General for Scotland's reports on sustainable waste management and estate management in higher education, and the section 22 report on Scottish Water?

Members *indicated agreement.*

"Sustainable waste management"

10:04

The Convener: For agenda item 4, I invite the Auditor General to brief the committee on his report on sustainable waste management.

Mr Robert Black (Auditor General for Scotland): Thank you, convener. I invite David Pia, who is the director of public reporting and who led on this study, to introduce the report to the committee.

David Pia (Audit Scotland): Thank you, convener. Last week we published "Sustainable waste management"; the report was done jointly for the Auditor General and the Accounts Commission because of the shared responsibility of central Government and local authorities for waste management policy.

Managing waste is a major policy issue throughout the world and there are commonly agreed objectives: to reduce the amount of waste produced, to recycle where possible and to minimise the amount sent to landfill.

Our national policy is driven by the European Union landfill directive of 1999, which set targets for member states to reduce the amount of waste sent to landfill. The directive was backed by the possibility of financial sanctions against member states that did not achieve the targets. Since then, investment in waste management has grown rapidly. For example, over the past few years funding through the strategic waste fund—which was set up specifically to pursue those targets—has risen from £3 million in 2000-01 to £89 million in 2005-06. Some £200 million extra has been invested in waste management over those years.

Our report examines progress in managing household waste in Scotland in recent years and how well the Government, councils and other bodies are improving waste management to meet the landfill directive targets. I will briefly run through the report's main findings.

First, significant progress has been made in meeting interim recycling targets. The percentage of waste that is recycled and composted has increased from 7 to 25 per cent in the past five years. However, rates of recycling and composting vary considerably among councils. Those variations reflect factors such as the number of high-rise dwellings and travel distances in rural areas. Four out of five people now participate in recycling schemes.

There is a reasonable chance that we will meet the 2010 target for reducing landfill, but it is less

likely that we will meet the 2013 targets. Those targets will be difficult because of the continued growth in the amount of waste that is generated, the lack of facilities for treating waste and the cost of continuing to increase recycling levels beyond current levels.

Over the past few years, the Government and councils have been slow to develop facilities to treat waste and there were early delays in getting things going. There has been a lack of organisational capacity within councils and within the then Scottish Executive to deliver the required changes.

The costs are rising, but they need to keep rising if the targets are to be achieved. The annual expenditure that councils require to meet landfill directive targets will need to grow from £350 million in 2005-06 to an estimated £580 million in 2019-20.

Our report points out that, if we are to achieve the targets, urgent decisions need to be made about how we balance waste minimisation, recycling levels and waste treatment. Decisions will also need to be made about how that will be funded.

The report discusses a number of key aspects of waste management. On the many and varied methods of collection, we suggest that further evaluation is required to find out which is the most effective method. We also consider the arguments about different forms of waste treatment and the pros and cons of those. We discuss aspects of the movement of recycled materials around the world. We also discuss waste prevention campaigns, home composting and community recycling.

The report's 20 recommendations, which are addressed to the Scottish Government and councils, include a recommendation that the Government and councils should together urgently develop an action plan to show the milestones in the process for achieving the 2010, 2013 and 2020 landfill directive targets. We recommend that the Scottish Government should publish an annual report on progress on waste reduction. We recommend that an evaluation should be done of the different forms of kerbside collection. We also recommend that more efficient forms of procurement of waste treatment facilities should be developed.

Finally, I want to mention a point that was highlighted in media coverage following the publication of our report. We did not recommend the introduction of charging for waste collection; we recommended that the Government and councils should undertake research to assess the contribution that direct charging might make. Our report notes that other countries that send much smaller amounts of waste to landfill provide for

local authorities to charge. We also note that bodies such as the Chartered Institution of Wastes Management and the Local Government Association in England have supported the piloting of charging for waste collection. We recognise that such a policy would be controversial and that it would have potential disadvantages. However, given Scotland's poor record to date on waste management, we believe that there should be an appraisal of the pros and cons of charging.

That is all that I will say by way of introduction. Along with my colleagues in the team that produced the report—Mark Diffley, Kirsty Whyte and John Lincoln—I am happy to help with any questions.

The Convener: There is no doubt that we face significant challenges in waste management—not just the legal and regulatory imperatives that we face but the huge environmental issues that, as a society, we have a duty to address. It is encouraging that in a relatively short time we have made the progress that you noted in your report. Credit has to be given to those responsible for that. There has been central Government intervention and a willingness at local authority level to take on the challenge. It is clear from what you are saying that much more needs to be done; the question is what needs to be done.

The committee will discuss in private what we want to do, but it would be useful if we could tease out some issues and ask you some questions. You said that there are a range of methods of collection throughout the country and that you have even found different methods of collection in one local authority area. Have you given that any more thought? We are a relatively small country. Some authorities are perhaps constrained by being fairly small.

On planning, it is clear that to some extent we have to cope with the results of the way in which we have governed ourselves over many years. In looking forward, should we do something about the layout and design of buildings and estates to make it easier for households to recycle waste and for those responsible to collect it? You mentioned some of the difficulties in high-rises or areas of denser population. It strikes me that if we want to have joined-up government, perhaps we should consider all that in a more coherent way.

David Pia: You asked first about kerbside collection. We describe how all sorts of methods of collection have developed, sometimes even within council areas. We recommend that those methods be evaluated to identify what is most effective and what is best value for money. That is our general position. I will ask John Lincoln if he wants to add anything on the detail of the evidence to date.

You also asked about environmental planning, which is a big issue on which we did not really focus. Mark Diffley might have something to add about that.

Mark Diffley (Audit Scotland): On the question about kerbside collections, we found 67 different types of recycling schemes throughout Scotland. Our general response is that that seems too many. As David Pia said, we did not find any evidence of a systematic evaluation of those schemes, so we recommend that such an evaluation is done and that the best practice that it reveals is taken forward to standardise or rationalise the variety of schemes out there.

We say quite a lot about giving credit for the fact that more than 25 per cent of waste is now recycled or composted, but we are acutely aware that, for the reasons that you identified, it will become increasingly difficult to make the further increases that are necessary to meet our recycling targets. Less recycling is happening in many rural areas and it is clear that there are not sufficiently good arrangements for people who live in tenements to recycle. It is not a case of our saying that, given that the amount that we recycle has increased from 7 to 25 per cent over four years, we can continue to progress. It will become progressively more difficult to increase recycling rates as we get to the more difficult areas, because the easy hits have already been made.

10:15

John Lincoln (Audit Scotland): We recognise that several different types of schemes and separate collections will be necessary to meet the needs of different properties: for example, tenements need a different type of collection from estates and rural areas. One of the advantages of reducing the numbers of schemes and bringing in standardisation, however, is that councils could work together—joint working is on the agenda at the moment. Another advantage of standardisation is that councils can look at that as part of their option appraisals for best value. If councils want to market test the services, it is much more attractive if the systems are all fairly similar and can be brought together. Currently, we find that even councils that are adjacent to one another have systems that are not always compatible.

Murdo Fraser: The Audit Scotland report refers to slow progress being made in developing facilities to treat waste. Can you expand on that, and let us know the reasons? Was that a resources issue; was it to do with lack of advance planning; or were there delays—for example, in the planning system—that held up the development of facilities?

John Lincoln: There are a number of reasons. In 2003, when the then Executive and the Scottish Environment Protection Agency published the national waste plan—there were also a number of area waste plans for 11 groupings of councils throughout Scotland—they asked councils to produce implementation plans to move forward not only on recycling, but on providing facilities to deal with residual waste. One or two councils put forward schemes to do that, but because of the

“lack of organisational capacity within councils and the Executive”

that we mention in the report, bringing in the recycling schemes to achieve the interim target and introducing the facilities for residual waste were perhaps too much to take on at once. The Executive and the councils then focused more on increasing recycling in order to achieve the 2006 target of 25 per cent, which they did. That created a delay to a certain extent in introducing facilities to treat the waste that is not recycled.

The Executive then asked the councils to work together in groupings, which were based on the area waste groups, to produce outline cases for plans to deal with residual waste. They were asked in March 2006 to produce those outline cases, with the aim of a decision in September 2006, but no decisions have been made until now. It is difficult to get councils to work together in that way. There are difficult decisions to be made, as there is a large expense involved in putting together the plans. The Executive wanted to take the time to get those controversial decisions right, which led to further delays.

In March this year, the then Executive made two decisions about the bids from the Lothian and Borders group and the Lanarkshire group. Those groups have been asked to produce final bids by September, and a decision might be made then. Making the big and difficult decisions involved has taken a long time. Once the plans have been commissioned, it will take a long time—about a minimum of six years—to get planning permission, to get bidders and then to develop the facilities. That means that, in the case of a lot of the plans, we are too late to achieve the 2013 targets.

Murdo Fraser: We are all aware from our own areas how controversial planning applications for incinerators can be, and I am sure that the delay is partly due to identifying sites and getting them through the planning process.

What would be the consequence of not meeting the 2013 target, which, as you have indicated, is likely?

John Lincoln: It is very difficult to say. As it is a United Kingdom-wide target, it depends on what happens in the rest of the UK—and, to some extent, on what happens in the EU. It is very

difficult to predict the political situation in seven years' time.

Mark Diffley: We point out in the report that the sanction for not meeting the landfill directive target is a fine. However, for the reasons that John Lincoln set out, we are unable to say at this stage how much that fine is likely to be.

The Convener: How will that sanction operate? Will the UK Government be fined?

Mark Diffley: Yes.

The Convener: So, in a sense, there is no direct incentive on the Administration here, as others will have to pay the bill.

John Lincoln: Responsibility for meeting the UK target has been devolved, which means that each devolved Administration in the UK has its own target. The Scottish Government, for example, has its own target, which contributes to the overall UK target. If all the devolved Administrations meet their targets, the UK should meet its target.

The Convener: So culpability will be levelled at the UK, rather than at Scotland.

David Pia: That is right. However, as we have no experience to draw on, we simply do not know how the sanction will be implemented and whether, for example, some charge will be passed to Scotland.

Andrew Welsh: I know that EU machinery grinds slowly, but the EU must have given some indication of how it will fine people. Are there any precedents in that respect, or does it simply make a lot of noise about sanctions without actually delivering on them? Is the fine a serious threat, or is it something that might or might not materialise in 2013?

David Pia: We are not aware of what will happen with these targets or how any related sanctions will be implemented.

Andrew Welsh: So it is a trailer of forthcoming attractions.

The situation with the national waste plan shows a serious lack of co-ordination between central Government and local government. You also highlighted a lack of organisational capacity in councils and the Executive. What would it take to solve either or both problems?

John Lincoln: We have recommended that, instead of having a system in which councils prepare individual cases and separately implement each element of the infrastructure, the Government, councils and other interested parties should consider forming a national team to implement the required infrastructure. In that way, individual authorities or authorities working in

groups of four or five will not have to face the learning curve separately. Once the team has taken one authority through the process of putting together bids and implementing infrastructure, it can move on to the next. Such an approach would help to build a level of expertise, and the Scottish Government has indicated that it will look at it.

Andrew Welsh: So it is a matter of building capability. Would such an approach require major investment from local authorities and central Government, or would it be a much lesser and more easily achievable exercise?

David Pia: We have identified a relative lack of skills, experience and knowledge that has been increasing over the past few years; increasingly, there is also recognition at the centre of the need to consolidate those aspects. People have very much learned about all this on the job, but because the policy is complex to develop and implement, it requires a range of skills and experience, from technical knowledge of the different approaches to dealing with waste through to expertise in procurement, monitoring, information collection and so on.

Andrew Welsh: It is about co-ordination, gathering together existing capabilities and using them better.

David Pia: Yes.

Mark Diffley: Definitely.

Trish Godman: I am probably the only person in the room who remembers the pig bins that sat outside closes and into which people put their kitchen waste. Someone then collected the waste and fed it to pigs, so that pork tasted like pork and bacon tasted like bacon. Perhaps that is another story.

You are saying clearly that there is good practice but that no one is telling anyone else about it in the way in which they should, and that councils are not talking to one another. I take Andrew Welsh's point about the relationship between Government and councils and accept that some money may need to be spent. You said that there were 67 different schemes for collecting and getting rid of waste. The Convention of Scottish Local Authorities should look closely at that issue. If it is a costly exercise, putting councils together might create economies of scale. I am not sure whether that is happening in COSLA. Is it happening only every now and again, when the Government says that something should be done about the matter because there are targets to meet, or does COSLA regard the issue as important? I do not know whether it is dealing with it at all.

Mark Diffley: We did not come across any evidence of COSLA's co-ordinating role. However,

when we were preparing the report we were attracted to the point that you make about economies of scale, which John Lincoln, David Pia and I have mentioned.

John Lincoln: There is a small COSLA waste group, but the Scottish Government has had regular meetings with councils. There was one such meeting in March or April, which considered how Scotland could achieve 50 per cent recycling. Once or twice a year the Executive and councils get together with other interested parties to talk about the evidence.

Trish Godman: Is that done through COSLA, or does the Executive invite certain councils in?

John Lincoln: As I indicated, the Executive invited all councils to a one-day workshop to look at the issue of recycling. It does that periodically.

The Convener: We can consider whether we want to put questions to both central and local administrations. Further to what Andrew Welsh said, I do not get the impression that money is the only issue. Some local authorities may struggle because of their small size. We may need to ask the Government to take a more hands-on approach. We will come back to that issue.

Jim Hume (South of Scotland) (LD): Trish Godman made a point about pig bins. I think that such bins were responsible for starting the 2001 foot-and-mouth outbreak, so we will probably not go back to them.

My question is about fines. You say that there is no precedent on the matter, that the UK would be fined and that the UK Government would probably take the Scottish part of the fine from Scotland. I presume that the Scottish Government would seek to get that money back from local authorities, depending on how they had performed. Is that what you envisage happening?

Mark Diffley: We suggested that several times, but we do not know how the system would work. The report points out that some local authorities have already been fined for exceeding their landfill allowances, which is a separate issue from the European Union landfill directive. In that sense, there is some precedent for local authorities footing the bill for missing targets but we honestly do not know how that would operate as far as the landfill directive target is concerned.

10:30

Stuart McMillan (West of Scotland) (SNP): I have a few points. The first concerns the recommendations on page 42 of the report. Those in paragraphs 180, 183, 188 and 193 are some of the most important for helping to achieve the ultimate objective. Secondly, exhibit 23 on page 36 mentions underspend in the strategic waste

fund. Do you have any indication as to why there has been such an underspend?

David Pia: The general answer is that the underspend is the result of delays in progressing plans as intended. We have said a little about the delays. My colleagues might like to add something further about them.

John Lincoln: Sometimes it simply took longer than originally envisaged for councils to implement recycling schemes, or for bids from councils to the fund to be agreed.

Stuart McMillan: My second point concerns how staff in local authorities and the Executive of the time worked together—or did not work together. Exhibit 5 on page 11 is a chart that shows the percentage of municipal waste sent to landfill in EU nations and in Scotland. Has there been any indication of local authorities or the previous Executive bringing in outside expertise to try to encourage a reduction in the amount that we send to landfill or to show a way forward to such a reduction? I have studied in three European countries—France, Germany and Sweden—which are a lot better than Scotland and the UK in that regard. Has bringing in outside expertise been considered?

David Pia: Are you asking why other countries are so far ahead?

Stuart McMillan: I am asking about using the expertise that already exists.

David Pia: In other countries?

Stuart McMillan: Yes. Have we considered bringing in expertise to show us the way to better methods of waste disposal?

John Lincoln: Councils have certainly considered bringing in expertise from Remade Scotland, which is based in Glasgow Caledonian University and provides expertise for putting together bids to the Executive as well as advice on recycling schemes—it has a lot of information on that. When introducing recycling schemes, councils have also used the Scottish waste awareness group to help publicise them and increase public awareness about them. That seems to work quite well.

Councils have also tended to bring in consultants from the private sector to advise on putting together bids for dealing with residual waste. There have also been one or two Executive-sponsored visits to Europe to look at facilities that deal with residual waste.

There is a tendency to bring in some outside expertise.

Stuart McMillan: Do you know exactly how much outside expertise has been brought in and how much has been spent on that? The likes of

Sweden are far ahead of Scotland and the UK. We must examine countries such as Sweden, which are much more successful at not sending waste to landfill, to find out what we are doing wrong. We must implement the best practice from outside Scotland and the UK.

Mark Diffley: We agree. We highlight in the report a few reasons why we have traditionally relied on sending waste to landfill, whereas other countries have done that less, as can be seen from exhibit 5. Some reasons are cost and the fact that sending waste to landfill is traditionally what we have done. We agree that there are things to learn from other countries. That was not the focus of the report, but it is a fair point.

David Pia: The figures in exhibit 5 are for 2003, which was the latest date for which comparable figures were available. The gap is not as large now. Part of the explanation is historical—Scandinavian countries and northern European countries got into waste management way ahead of many other European countries. As we say in relation to Scotland, once we start to invest, much headway can be made quickly into building recycling levels. However, after the easy gains have been made, continuing to make progress is challenging. We are reaching that stage now.

Stuart McMillan: Therefore, an opportunity may exist to engage even more with northern European nations, to develop matters further. I accept that larger inroads can be made initially, after which progress slows.

Mark Diffley: That is right. We try to tease out in the report the key challenge, which is the question of how much more we can recycle and at what cost, given that recycling will become progressively more expensive as collecting recyclable materials becomes harder, as we said. That is set against how we treat the other materials that we collect that go to landfill and what facilities we need to treat them. Those are the key high-level big questions that came out of our study. Exhibit 5 highlights how far behind other countries we are.

Willie Coffey (Kilmarnock and Loudoun) (SNP): I will ask about the waste-to-energy schemes that are mentioned on page 18. The nice table on that page shows that such schemes are contributing significantly to reducing the use of landfill in four council areas. Do those schemes involve incinerators?

John Lincoln: Under the energy-from-waste schemes, waste is burned to produce energy in the form of electricity. The scheme in Shetland also produces hot water to heat local houses. That is not the same as simple incineration.

Willie Coffey: An obvious opportunity exists to develop that idea, because its contribution to

reducing the use of landfill is immense. What are the barriers to establishing more schemes? If incinerators were involved, I presume that there would be some public resistance. Page 17 mentions cost barriers to achieving approval for such schemes, so perhaps more work can be done on the costs of such schemes, which could contribute further to reducing the use of landfill.

David Pia mentioned the idea that the Government and councils could consider the impact of a charging scheme. Did Audit Scotland consider the alternative of incentivising, rather than charging, the public? I am sure that most of the public would say that they already pay for the uplift of waste from their houses through council tax, so why should they pay any more, thank you very much? What about an incentive scheme that would reward the public at their doorstep for a reduction in waste volume that they leave at the kerbside?

Mark Diffley: I will answer your first question about barriers. You are right to highlight the perceived public resistance and not-in-my-backyard approach to energy-from-waste plants. If that is the route that the Government decides to go down, really big decisions must be made about how many plants we need and where and how big they need to be. Such decisions are also affected by how much we think that we can recycle, which will have a direct effect on how much waste we need to treat through energy-from-waste plants. The cost of building them also has an impact. We highlight in the report the differences between the cost of increasing recycling and the cost of treating waste through energy-from-waste plants, although I am aware that that is only one aspect of what we are looking at.

The second question was about charging. As David Pia mentioned in his introduction, we make a passing reference to charging in the report. We say that we were aware of the pros and cons of charging, but we did not look into the area in detail. In response to your questions about incentives, we do not have any evidence either way to support such an approach.

David Pia: We did not examine charging because it does not happen in Scotland. We look at what happens in Scotland but, if we become aware of them, we draw attention to things in other places that might be worth looking at. That is precisely what we say in the report about charging. The argument for charging is that it is an incentive to recycle—people can lower the charge that they pay if they put out less waste. However, it is a complex area, which is why we recommend that it is examined.

Mark Diffley: We highlighted some secondary, tentative evidence on charging from England, which was that charging encouraged people to

recycle more. However, we drew no firm conclusions from that evidence.

David Pia: I reiterate that we are looking at what is happening in Scotland—that is the objective of the report.

Claire Baker: My question is about waste minimisation. I note from the report that increasing costs are associated with increasing recycling rates. What evidence have you found of good practice in waste minimisation? As a mother who has used real nappies, I appreciate that there are things that the individual can do to contribute to waste minimisation. Who should be doing more to support waste minimisation?

John Lincoln: We looked at community schemes to encourage waste minimisation—for example, schemes that give people who need it furniture that would otherwise go to landfill or schemes that put together furniture starter packs for people who are moving into housing. However, many of the measures to do with waste minimisation are concerned with reducing the use of packaging in supermarkets. The Courtauld commitment on packaging is UK wide. Many packaging issues affect UK-wide companies, such as Asda and Tesco, and such companies have made commitments on waste minimisation.

In Scotland, the Executive has put together a waste minimisation plan that includes a number of points, such as asking councils to reduce the amount of waste that they send to landfill. There is a fair bit going on, but not all of it relates to what happens in Scotland.

Claire Baker: In some ways, as much prioritisation must be given to waste minimisation as is given to recycling. Many people now accept the responsibility to recycle, but the same is not true for waste minimisation.

10:45

Mark Diffley: That is right. Our report points out that the issue has not been addressed to the extent that recycling has. We would pretty much agree with that point.

The Convener: Some parts of the country have had sporadic consumer action to highlight the issue, with people ripping off useless packaging in supermarkets and trying to force the supermarkets to do something. Perhaps consumers in Scotland might start to take some direct action to force those who inflict useless packaging on us to do something about it.

Jim Hume: Page 13 of the report states that, typically, 28.1 per cent of waste is food and garden waste. However, a significant amount of home composting takes place. How can we account for food and garden waste that is

composted at home and so not picked up by lorries or services?

John Lincoln: We cannot really measure that, as it happens in people's homes. However, we found that when councils introduce separate collections for garden waste to try to improve the amount of composting, that acts to an extent as a disincentive to home composting. We want incentives for home composting. It is difficult to measure waste that does not go out, if you see what I mean.

Jim Hume: Is there a guesstimate of the amount of waste that is home composted? Including that in the figures for Scotland would obviously help.

John Lincoln: I am not aware of any estimates of the amount of home composting. Measures are available, such as the number of composting bins that councils have issued, which has increased in the past few years. I do not have those figures with me, but I will provide them. However, once the councils have either sold or given home composting bins to residents, there is no way of knowing how much they are used.

The Convener: It seems perverse that many local authorities charge householders for a composting bin. If home composting made the contribution that some people say it makes to minimising the amount of waste that goes to landfill, one would think that councils would supply composting bins for free. Was there any discussion about why authorities think that charging for the provision of such bins is an aid to recycling?

John Lincoln: There was no discussion of that within the team. The only discussion was with people in local authorities. One person said that they felt that if people have to buy something, they value and use it more than they do if they get it for free. However, that is only one person's view.

The Convener: A highly paid official, no doubt, but never mind.

Jim Hume: To clarify, that means that none of the home composting schemes goes toward helping the landfill directive figures.

John Lincoln: Home composting will do that if it reduces the amount of biodegradable waste that goes in the bin. We do not know the amount of home composting but, if it increases, it will help the waste figures, because that waste will not go in the bin.

Jim Hume: Would it be useful to have a survey by local authority area to get voluntary information from home composters to help with the figures?

John Lincoln: Yes.

Andrew Welsh: Do you have any information about fly-tipping? One of the worries about charging for waste collection is that it might lead to fly-tipping, especially in rural areas surrounding cities. Did you get any evidence about fly-tipping and an increase in the level of it?

Mark Diffley: No. As I said, we did not really consider charging. We highlighted the common concern about charging that it could lead to an increase in fly-tipping, but we did not consider the issue in any great detail.

Andrew Welsh: It remains a major problem.

Mark Diffley: Yes.

The Convener: We have given the issue fairly good consideration. We will decide what action to take on the report under agenda item 7.

“Estate management in higher education”

10:50

The Convener: Item 5 is on “Estate management in higher education”. I invite the Auditor General to brief us on his report.

Mr Black: This is the first report to Parliament that I have made concerning the higher education sector. I am not responsible for the audit of individual institutions in that sector, but I have a statutory right to initiate studies into economy, efficiency and effectiveness in most higher education institutions. That right does not apply to the eight oldest universities in Scotland. However, I was pleased that they agreed to take part in our study. There are currently 21 higher education institutions in Scotland. Their estate includes more than 1,000 non-residential buildings on 72 sites. The total estate has a value of almost £5 billion.

In 2001, the Scottish Higher Education Funding Council began distributing funds specifically aimed at improving the higher education estate. The Scottish Further and Higher Education Funding Council—as it is now—has allocated £459 million for distribution to the end of March 2008. That includes £127 million to be distributed in the current year, 2007-08.

The report contains six main findings that, I suggest, are appropriate to bring to the attention of the committee. The first main finding is that the maintenance backlog for the Scottish higher education estate is almost £700 million and it continues to grow. I emphasise that that is an indicative figure, not an absolute estimate. We analysed estate management statistics and other data to get a ballpark figure of the sums involved. Almost 70 per cent of the backlog is concentrated in the estates of five of the largest institutions, reflecting the size and condition of their estates. Those are Strathclyde, Edinburgh, Glasgow, Heriot-Watt and Dundee universities.

The second point is that it is rather too early to establish the full impact of the recent investment in the estate. The effect of the planned additional investment should be evident over the next few years. In 2005-06, the Scottish institutions spent over £200 million on new buildings, refurbishment and estate maintenance.

Funds that were distributed by the funding council—essentially, that is the public part of the money—account for just under one third of the total. The remainder comes from the institutions’ own resources, loans and contributions from external resources. A diagram at the beginning of the report tries to capture that.

The Audit Scotland report found that there was mixed progress up to 2005-06. The overall condition of the estate has improved since 2001-02. In 2005-06, 55 per cent of the estate was in new or sound condition, compared with 48 per cent in 2001-02.

It is difficult to compare maintenance backlogs between those years, due to the incompleteness of the data. However, the size of the backlog had increased by 15 per cent in the 14 institutions that were able to provide us with relevant information.

It is too early to see the impact of the investments that have been made to date, because of the long-term nature of the capital investment and the phased nature of the resource allocation. However, institutions are expected to invest a further £589 million up to March 2008, and we expect improvements to be made through that investment.

The third main finding is that the condition of the Scottish estate compares unfavourably with that of the United Kingdom estate. In Scotland, 45 per cent of the estate will require repair soon; the comparative figure for the UK is 36 per cent. The situation is worse in Scotland because the estate is generally older and it has a higher proportion of listed buildings. In addition, the institutions have received lower levels of public investment in the past, and they provide more space for students. As a result, the funds that are available for capital investment must be spread more thinly.

The fourth finding is about the important role of the Scottish funding council in ensuring that public funds are used to meet key national priorities. Most of the public funding for that purpose is allocated using a formula approach that takes into account student numbers and research activity. Institutions then allocate the funding to estates projects to meet broad criteria that are set by the new Department for Innovation, Universities and Skills—previously the office of science and innovation—and the Scottish Government.

That approach has a significant advantage because it provides the institutions with a firm indication of the funding that they will receive, which helps them with their forward planning. However, it also means that it is difficult for us to assess whether key national priorities are being met. We suggest that it might be possible to introduce a more rigorous assessment process, with tighter criteria, which would have the advantage of making a closer link with the key national priorities.

Our fifth point is that, although the Scottish funding council is committed to assessing the impact of capital investment in its corporate plan, rather more could be done to assess estate management performance. The SFC provides

more strategic support for estate management in the sector than it used to. Its corporate plan identifies two high-level measures that it will use to assess the impact of capital investment. Those are, first, the overall condition of the estate and, secondly, the total value of the maintenance backlog. However, we think that there should be more transparency about how public funds are used.

The SFC should consider supplementing its current arrangements by using a small set of indicators to give a more regular and comprehensive picture of performance across the sector. That should be reported in public and, of course, to Parliament to demonstrate the impact of public investment in the university estate, given the substantial sums involved and the importance of the university sector to the future prosperity of Scotland.

The sixth and final point is that some institutions have good systems in place to support effective estate management, but good practice must be shared across the sector. The structures that the institutions use to deliver estate management vary, and a number of strengths are evident. Audit Scotland found examples of good links between estates and finance departments to ensure that funds are used well and examples of the involvement of staff and students in discussions about the estate. Most estate departments make some use of performance information to monitor the quality of their estate, but management scrutiny of estate performance could be improved.

Overall, it is fair to say that the higher education report encourages the Scottish higher education institutions, the SFC and the Scottish Government to continue their commitment to reduce the backlogs. However, they should ensure that that development is part of a clear strategic framework. The report contains a number of recommendations to support that.

We will do our best to answer any questions that the committee may have.

The Convener: Thank you. I am sure that when the committee deliberates on what inquiry to hold, there will be rigorous examination of certain questions and ideas. The issue with which the report deals is critical for the future of Scottish education. We cannot have a high-performing higher education sector, if we do not have resources that allow students to study and staff to deliver high-quality education. We are in a competitive UK and world market, so there are big issues to deal with.

I have a question to kick off the discussion. In towns and cities with more than one higher education institution, did you consider whether there is wasteful duplication of resources?

Mr Black: No, we did not consider that issue directly, but we examined what had been happening at individual institutions. The prevailing pattern is of each institution designing its estate strategy primarily around its own requirements and plans, which I suppose is perfectly understandable and appropriate. We did not find much evidence of collaborative use of estates by different institutions. Graeme Greenhill and Andra Laird might be able to fill that answer out a bit.

11:00

Graeme Greenhill (Audit Scotland): There certainly was not a lot of collaboration in planning estate development works, but there was a bit more sharing of the existing estate.

Andra Laird (Audit Scotland): There is quite a lot of joint use of equipment. An institution might allow lecturers and students from other institutions to use a particular piece of equipment. The key point that we are trying to get across is that, when buildings are being designed or equipment is being purchased, it is done for the institution's own benefit. The institution might consider subsequently how best to use the facilities, rather than considering that earlier, when they might find other potential users, which could change the specification of what they buy or build. We hope to see more collaboration in the earlier stages.

The Convener: Should the funding council take a closer interest in that?

Mr Black: We are suggesting that the funding council could refine and develop the criteria that it uses to help to steer the strategic approach to all this. I said a moment ago that it has a couple of core criteria. When it is evaluating performance, it tends to consider the overall condition of the estate and the total value of the maintenance backlog. We think that the criteria could include factors such as financial indicators to demonstrate the efficient use of assets; space-use indicators, which are common in the management of estates; fit-for-purpose indicators that demonstrate that the assets are being effective; and environmental indicators, which look at water and energy use and the long-term sustainability of the estate.

We have also said in the report that we took the lead among the five audit bodies in the UK, including the National Audit Office, in preparing a set of core indicators for benchmarking estate management performance, which we describe in the report. We have recommended the use of those corporate indicators in all public bodies in Scotland. We think that they could be the starting point for developing a small set of core indicators that are tailored to the specific needs of the HE sector. A final factor, which relates to the point that you made earlier, convener, is that more might be

done to explore the merits of estate proposals in respect of shared use.

The Convener: I want to ask about future funding. You referred to the improvements in investment that have been made since 2001-02. You have reflected on the greater challenges that Scottish universities face, for historical reasons, including the large number of listed buildings. You said that it is too early to see the impact of the greater investment that has been going in. I note from your report that the universities raise a significant amount of money themselves to invest in their estates. However, that still does not take away from the big issue confronting universities in Scotland, which is how they compete in the first instance on a UK basis.

There are issues to do with what central Government contributes, but two other questions have been swirling about: how else will universities raise funds, not just for buildings but for running costs, and what will happen if the resources are not provided while universities and other institutions in the rest of the UK see greater growth in their budgets? Having looked at the historical problem, did you reflect on the challenge of raising the money that is required to compete effectively in the UK?

Mr Black: That would require a forward look, which is not easy or appropriate for us to do in any great detail, but there are a couple of points that are perhaps worth making to help your general appreciation of the issues. Let us first consider exhibit 1 on page 9 of the main report, which I think is replicated in the summary.

Graeme Greenhill: The exhibit is also in the key messages document.

Mr Black: The chart indicates different categories of institution: the SSIs, which are small specialist institutions such as the Royal Scottish Academy of Music and Drama; the pre-1992 institutions; the post-1992 institutions; and what we call the ancients, which is rather a nice term. It also shows the total.

As the committee can see, the SSIs are very dependent on public funding. The pre-1992 universities, some of which have significant estate problems, are less but still significantly dependent. The ancient universities, such as Edinburgh and Glasgow, have significant sources of funding and their own internal resources, through bequests for example. It is a complex picture.

We have found that some of the larger institutions have the greatest maintenance backlog and will have the greatest difficulty in addressing that backlog. Of course, the level of investment that is needed to tackle that and the extent to which the universities can do that are matters of judgment. For example, the University of Glasgow

has invested substantially in its estate in the past few years and the estate is beginning to show signs of improvement, but it still faces a challenge.

We have also described in the report some of the technical and professional measures that can be used to get a handle on whether an individual institution has a problem. I suspect that the committee does not need to go down to that level of detail.

That is rather a long answer to your question, but the significant size of the backlog and whether institutions have the resources to address it are undoubtedly an issue, particularly in some cases.

The Convener: In other words, although much has been achieved, there is a huge amount more still to be done. The questions are whether it is realistic for the Government to provide the resources and, if not, where else those resources might come from given the political constraints that are put on funding by politicians.

Mr Black: That is an important issue. In its last spending review, the Scottish Executive committed funds through to 2008, but there is no indication of the funding beyond that. There has certainly been evidence of a steady build-up of funding each year from a starting point in 2001-02 of £15 million to the much more significant sum of £126.5 million in 2007-08. There is currently no indication of the plans for funding beyond 2008, although we have had indications from within the Government that it is using the report to inform its thinking.

Murdo Fraser: I want to follow up on the convener's questions about funding. You indicated earlier that the maintenance backlog across the sector was in the region of £700 million. It is a well-known phenomenon, not just in the public sector but in the private sector too, that when funding gets tight instead of making cuts in salaries or head count, organisations put back the things that can wait for another year, such as non-essential repairs to buildings. Is that what has been happening in the estate? In other words, does the £700 million backlog represent in effect a sort of hidden deficit in funding that has accumulated over a period of years?

Mr Black: Statistics are available from about 2000, so we cannot give you a robust answer based on a long-term view. It is true to say that problems of maintenance, repair and refurbishment are long running—there will have been an historical problem. That was first recognised explicitly back in 2001-02 by the Executive, when it started making a specific allocation of money—albeit a small sum in that year of only £15 million—to address the problem of the higher education estate. Of course, that has been built up subsequently. My colleagues may be

able to shed more light on the extent to which that is a problem inherited over many years.

Andra Laird: Before 2000, and ring-fenced funding, institutions were investing in their estate. For example, the University of Edinburgh started developing Little France. What institutions have said to us is that having the money ring fenced since 2001 for capital projects has been very helpful in that it has enabled them to be sure what they are doing and what they are getting.

Jim Hume: You mentioned that part of our problem is that we have older buildings, which are often listed, especially in the case of the ancients. A hard-nosed businessman would probably say, "Okay, let's sell up the old and buy some new state-of-the-art buildings, and maybe make some money on it." Do you see a trend in future of such rationalisation on the part of universities, or has it already started?

Mr Black: The high-level answer is that every institution is in a unique place because of the make-up of its estate over many years. In Glasgow, for example, at one end of the spectrum there is the University of Glasgow which, as the report highlights, has a large inheritance of listed buildings and old buildings that are expensive to maintain and refurbish, and, at the other end, there is Glasgow Caledonian University, which has made major investment over the past few years on what was a fairly rundown site. The university is seeing the benefit of that, which is showing through in some of our statistics. The situation varies enormously, but I am sure that the team can say more about that.

Andra Laird: We have discovered that many institutions really value their listed buildings. They are what attracts people into the country, so there is a limit to what can be done in terms of putting them aside if they are becoming expensive to maintain.

Jim Hume: Some of them are almost icons.

Andra Laird: Yes.

Willie Coffey: I was interested in the point that someone made earlier, when they said that it is sometimes of secondary consideration that new equipment could be procured in a way that would provide benefit to other institutions, particularly local ones. How do we get closer to improving the co-location of facilities and services and the procurement of equipment? Do we have to build it in as a requirement in the procurement process? You were saying that institutions tend to operate individually—they deliver for their own students and their own campus. You said that we are perhaps moving into a new age in which they need to think more seriously about co-location and joint procurement initiatives.

11:15

Mr Black: I think that our report adds support to that point of view. As I think I said earlier in an answer to the convener, we have suggested some of the core criteria that might be used to steer future investment. One criterion has to be whether a particular project is designed to be used by more than one institution. An evaluation of the options should take account of what already exists not only in individual institutions but in the wider area.

I will ask Andra Laird to say more about the procurement and shared use of equipment.

Andra Laird: On the first point that Mr Coffey raised, after the report was published, someone in the sector told us that they recognised the need to do more, and to be seen to be doing more, in developing facilities jointly. There was some resistance at first, but it seems that people are now taking the idea on board.

The intention in all the criteria that are set out for people who are applying for funding, is to try to promote more collaborative use of facilities. However, collaborative use is defined very widely and loosely, and institutions have not felt the need to make it one of their top criteria for new buildings and developments. We have discussed the issue at length with the sector and the Scottish funding council.

Graeme Greenhill: We have an opportunity. The institutions are expected to produce updated estate strategies by the end of this year. A key part of preparing those strategies will be assessing estate needs and considering their costs. Those costs will have to be benchmarked against those of other institutions, and that may encourage people to think about rationalisation and sharing services, for example.

The Convener: I thank the witnesses for their answers. We will reflect on them.

“The 2006/2007 Audit of Scottish Water”

11:17

The Convener: The sixth item on our agenda is a briefing from the Auditor General on the section 22 report entitled “The 2006/2007 Audit of Scottish Water”.

Mr Black: For the benefit of members who have joined the committee only recently, the phrase “section 22 report” refers to section 22 of the Public Finance and Accountability (Scotland) Act 2000. If issues arise in the accounts of public bodies that have been laid before Parliament, I have the power to make reports to accompany the accounts.

By and large, such reports have been written when the financial audit has highlighted problems of one kind or another. However, this report on Scottish Water is a little different—it is not about a particular problem. I made the report partly because of the interest that the Audit Committee has taken in the financial performance of Scottish Water over recent years. I prepared reports on the Scottish water industry—later Scottish Water—in 2002 and 2005. Early in 2006, the Audit Committee took evidence on the second of those reports. The committee did not make a report at the time, but it expressed its continuing interest and I indicated that the performance of Scottish Water would be monitored through the audit process.

Our report summarises the recent findings of the Water Industry Commission for Scotland. The commission has produced a substantial report, but it is a long and detailed read. We have therefore tried to summarise it with regard to Scottish Water’s progress in improving its efficiency and customer service. The report briefly covers Scottish Water’s operating cost efficiency, its capital expenditure efficiency and its customer service performance. I will summarise the main findings under each of those headings.

On operating cost efficiency, Scottish Water was expected to cut its annual operating expenditure, relative to the 2000-01 base year, by £158 million over the four years to March 2006. Achievement of that savings target would have reduced Scottish Water’s annual operating expenditure by 37 per cent to £265 million in 2005-06. Most of the savings were expected to come from significant reductions in its workforce—which have taken place—from a redesign of processes and systems, and from efficiencies that are a direct consequence of the merger of the three former water authorities.

By November 2006, the Water Industry Commission reported that Scottish Water had reduced its base operating cost to £259 million, against the £265 million target. The target, therefore, was achieved. Scottish Water reported that it had reduced its base operating costs by a further 5 per cent in the year 2006-07. However, those savings have still to be validated by the Water Industry Commission.

On capital expenditure efficiency, Scottish Water was expected to deliver its capital investment programme, covering the four years to March 2006, for £1,811 million. That cost target represented a saving of £549 million on what Scottish Water originally thought the programme would cost. In other words, there was a negotiation between the water industry commissioner at the time and Scottish Water that reduced the required capital investment programme.

The commission subsequently revised its cost target for the programme upwards to £2,110 million. That was done to take account of higher than expected inflation, additional pressures from new legislation and the need to provide security on Scottish Water's sites. At the same time, however, the commission raised the capital efficiency savings targets to £613 million.

In October 2006, the commission reported that Scottish Water had delivered 86 per cent of the expected outputs from its programme by March 2006, and said that the remainder will have to be delivered during the next investment period, which runs through to 2010.

Overall, the programme between 2002 and 2006 is expected to cost £2,166 million, which is about £56 million more than the commission expected. However, it still calculates that capital efficiency savings of £494 million were delivered to March 2006.

I apologise for the amount of numbers I am bringing up. I am happy to explain the situation later but, essentially, some fairly rigorous capital efficiency targets were set, after which there was a process of negotiation to and fro as new factors arose in relation to new legislation, health and safety, and so on. Scottish Water has made good progress towards the targets but still has some way to go. The Water Industry Commission calculates that Scottish Water has achieved capital efficiency savings of not far off £500 million. That represents quite a significant move forward.

On customer service performance, the commission reports that Scottish Water's customer service performance improved by 24 per cent between 2002 and 2006. In general terms, the performance still lags behind that of water

companies in England and Wales and there are a number of individual measures in relation to which performance is poor, such as the incidence of sewer flooding in Scotland, which is recognised by Scottish Water as an issue. However, Scottish Water has narrowed the gap and the commission says that the efforts that are being made to improve customer service should be recognised.

Scottish Water also reported that it bettered the commission's target for customer service in 2006-07 by 17 per cent. Again, that is still to be validated by the commission. There have been some significant achievements, however. For example, more than 5,200 properties have had their low water pressure problems addressed.

In conclusion, Scottish Water's achievements in the past few years have been significant. Improvements in efficiency and customer service mean that the average household water bill is about £100 less than it would otherwise have been. Nevertheless, Scottish Water still faces challenges if it is to continue to improve its efficiency.

I shall, of course, continue to monitor the performance of Scottish Water through the audit process and, in doing so, will continue to rely to a large extent on the detailed technical work that has been done by the Water Industry Commission.

I hope that this update has been useful to the committee, following on from the evidence that the previous Audit Committee took a couple of years ago.

The Convener: It is good to put on record the significant progress that has been made in relation to reducing charges to consumers and improving investment. Nevertheless, it is still a concern that Scottish Water lags behind comparable operators in other parts of the United Kingdom. Clearly, there is more still to do to improve its performance and delivery to consumers. Thank you for that analysis.

Trish Godman: You have said that the contracts for provision of water and sewerage services to non-household customers will go out to tender in April 2008. Has that happened before? Did Scottish Water win the contracts before, or will it be the first time it will face competition for non-household customers?

Graeme Greenhill: It will be the first time. A system of licences is to be set up, which the Water Industry Commission will regulate. The idea is that companies will be able to buy water from Scottish Water and sell it to non-household customers.

Trish Godman: I just wanted to know whether Scottish Water had faced such competition before and won. It has not faced competition before, and it has still not reached the standard that we want.

Mr Black: The issue is very much at the front of the minds of the managers of Scottish Water in drawing up their business strategy as they prepare for competition. It is one of the key factors that have created the pressure to achieve efficiency savings as quickly as possible.

Andrew Welsh: The situation is not great, but no one should underestimate the problems that have been caused by the long-standing lack of investment. Scottish Water should be given credit for the improvements that have been brought about: the patient is recovering but has some way to go. It is also noticeable that the commissioner has had a positive effect.

Scottish Water will face a problem in 2008, when it will meet strong competition; however, considering the decades of lack of investment, it has had a mountain to climb and should be given credit for the progress that it has made. Let us keep a watching brief and hope that there can be further progress.

Jim Hume: I want to return to customer service performance, which has improved over the three-year period. That is good, but there is still a gap. Is there any quantitative measure for customer service performance? Has Scottish Water reached a certain mark, and are the English and Welsh water companies at a different one?

Graeme Greenhill: The Water Industry Commission uses a similar approach to that which is taken by the Water Services Regulation Authority in calculating customer service performance. That enables Scottish Water's performance to be compared with the performances of water companies in England and Wales. The system takes into account a range of performance indicators, which it uses to calculate an overall score. That overall score can be measured according to the scoring system that is used for water companies in England and Wales.

The performance indicators address two things. On the one hand, there are performance indicators for such things as customer-billing performance, answering of telephones and so forth. On the other hand, there are performance indicators to address things such as inadequate water pressure, incidences of sewer flooding and unplanned interruptions to supply. The latter performance indicators are associated with the quality of the asset base. Given the investment that has been made in Scottish Water's infrastructure over the past few years, it is perhaps no surprise that the level of customer service performance is being driven upwards.

Jim Hume: Does Scottish Water have a score that we can compare?

Mr Black: The report that you have in front of you today is a high-level summary of what was in

the Water Industry Commission's report. The major study that we produced in October 2005 contained some exhibits concerning performance, but that information is slightly out of date now. I am sure that, from the Water Industry Commission's analysis, we could give you up-to-date figures if the committee was minded to take its interest further.

Graeme Greenhill: I can give you the scores as reported by the Water Industry Commission, but I am not sure how relevant they would be. The score has gone up from 133 in 2001-02 to 165 in 2005-06.

Willie Coffey: I have a question on the same theme of performance indicators. Low water pressure was one of the most common complaints that I received as a local councillor. In paragraph 15 of your report, you talk about

"the removal of over 5,200 properties from the low water pressure register".

Are those 5,200 customers now satisfied with their water pressure, or has Scottish Water simply removed them from the register?

Mr Black: That is an important issue that, unfortunately, in the context of the present report, we did not gather evidence about. You will have to address the question to Scottish Water, which I am sure will be able to answer it.

The Convener: There are no other questions. I thank the Auditor General and his staff for their report and their attendance.

11:30

Meeting continued in private until 11:44.

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