

RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

Wednesday 7 October 2009

Session 3

£5.00

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Printed and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by
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RURAL AFFAIRS AND ENVIRONMENT COMMITTEE 24th Meeting 2009, Session 3

CONVENER

*Maureen Watt (North East Scotland) (SNP)

DEPUTY CONVENER

*John Scott (Ayr) (Con)

COMMITTEE MEMBERS

*Karen Gillon (Clydesdale) (Lab)

*Liam McArthur (Orkney) (LD)

*Alasdair Morgan (South of Scotland) (SNP)

*Elaine Murray (Dumfries) (Lab)

*Peter Peacock (Highlands and Islands) (Lab)

*Bill Wilson (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Rhoda Grant (Highlands and Islands) (Lab)

Jamie Hepburn (Central Scotland) (SNP)

Jim Hume (South of Scotland) (LD)

Nanette Milne (North East Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

David Barnes (Scottish Government Rural Directorate)

Richard Lochhead (Cabinet Secretary for Rural Affairs and the Environment)

Ross Scott (Scottish Government Finance Directorate)

CLERK TO THE COMMITTEE

Peter McGrath

SENIOR ASSISTANT CLERK

Roz Wheeler

ASSISTANT CLERK

Lori Gray

LOCATION

Committee Room 3

Scottish Parliament

Rural Affairs and Environment Committee

Wednesday 7 October 2009

[THE CONVENER *opened the meeting in private at 09:32*]

10:06

Meeting continued in public.

Draft Budget Scrutiny 2010-11

The Convener (Maureen Watt): Good morning, everyone. I welcome you to this evidence-taking session on the Scottish Government's budget proposals for 2010-11. I welcome Professor Kenneth Thompson, who has been appointed as the committee's adviser to assist in our scrutiny of the budget process. I also welcome our witnesses: Richard Lochhead MSP, the Cabinet Secretary for Rural Affairs and the Environment; Paul Gray, the Scottish Government's director general environment; Ross Scott, the finance team leader for the rural affairs and environment portfolio in the Scottish Government; and David Barnes, the deputy director for agriculture and rural development in the Scottish Government.

I invite the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Rural Affairs and the Environment (Richard Lochhead): I begin by introducing my officials. On my left is Paul Gray, our director general environment; on my far right is David Barnes, the head of rural policy; and on my immediate right is Ross Scott, the head of the finance team. Thank you for the opportunity to say a few words of introduction. I know that you had your evidence session on the draft budget for my portfolio with my officials on 30 September.

As you can see, my portfolio shows a more or less stable funding position for this year and next, although there is, of course, a reduction of £8 million in our expected budget as a result of the cuts. A small growth in cash terms translates as a small reduction in real terms, using the Treasury deflator. To set a context, I will touch briefly on key aspects of the budget, giving examples of where we have invested to achieve beneficial outcomes and setting out some of our key objectives for the future.

Economic growth is a vital aim of our expenditure. This budget draws down significant European Union resources, which benefit Scotland as a whole and rural Scotland in particular.

However, economic growth must be sustainable; therefore, our budgets are also focused on maintaining and enhancing our environment. The health of our environment is critical to many important business sectors in Scotland.

For instance, one of our biggest exports, whisky, requires water quality of the highest standard, and the money that we are investing will help to improve water quality. We are also making good progress on delivering a zero-waste Scotland. We have already met our target for landfill diversion for 2010, and our investment through local authorities and other waste delivery bodies puts us firmly on the road to meeting our 2013 target and delivering on our recycling targets—although the recession may make that a little more challenging.

Climate change is a key concern, and we are tackling that in a number of ways. For example, forestry in particular offers real opportunities for carbon sequestration. Nonetheless, as we enter new territory, we will have to ensure that we can properly support all that needs to be done to tackle excess emissions.

The carbon assessment of the budget is a pioneering first attempt to get the budget and our carbon usage into the same frame of reference. Research and analysis are in hand to get a better understanding of what works in changing the behaviour of the people of Scotland, so that we can engage their help in meeting our emissions reduction targets, and to find better ways of measuring outcomes. Our investment in the climate challenge fund is driving forward innovative community action to reduce emissions throughout Scotland.

I mentioned sustainable economic growth. Given where we are in the planning cycle and our determination to support rural Scotland, we intend to draw down more euros into the Scotland rural development programme in 2010-11. We have submitted our proposals to Brussels, and that should lead to a substantial increase in spending power compared with our spending power this year. That means that we will be able to do more to support the economy of rural Scotland. Of course, looking after our natural assets is vital to the tourism business, which is of such value to our rural economy. Programmes such as LEADER support community initiatives and self-reliance, which helps to build confident communities that will attract population growth—an important driver in our economic strategy.

We are making real strides in taking forward our food policy and linking it to international efforts on global food security. We are seizing opportunities to strengthen our links with the Scottish food and drink industry. That will be supported by our investment of a further £10 million in a new building for the Rowett Institute of Nutrition and

Health at the University of Aberdeen. Our allocation of £22 million in food processing and marketing grants under the SRDP has safeguarded more than 2,500 jobs and created some 300 new jobs in that important sector.

Finally, our seas—excluding oil and gas resources—generate £2 billion for the economy and provide 50,000 jobs. The marine and fisheries budget figures cover a number of key areas, including grants for the sustainable development of the Scottish fisheries industry, which are awarded through the European fisheries fund; funding for the new aquarium—an investment that will ensure that we maintain an excellent reputation for fish health in our laboratories; and implementation work on the Marine (Scotland) Bill. In these difficult times for the fleet, I will give strong personal support to activity that will raise profitability and I will work closely with the industry on issues such as the reduction of discards, fuel efficiency and catching for the market.

All the activities that I have described support a better future for the people of Scotland and rural Scotland in particular. We face increasingly difficult times, but this budget is of a size and shape that will strongly promote our purpose of sustainable economic growth. I am happy to take questions on the draft budget and will do my best to answer them. If I cannot do so, I will follow them up in writing as soon as possible.

The Convener: Thank you, cabinet secretary. I invite questions from members.

Alasdair Morgan (South of Scotland) (SNP): Last week, in questioning your officials, it appeared to us that the capital element of the budget had taken a much bigger hit than the revenue element. We were told that the capital element of the budget was much smaller in any event—that only a small proportion of it is ever capital. Do you expect that to continue in future years? Has the fact that the capital element has taken the hit this year enabled you to avoid having to make difficult decisions this year on revenue, which you may have to make in future years?

Richard Lochhead: There is huge uncertainty about the future. We all expect difficult budgets in the future, and I cannot say that the rural affairs and environment budget will not be affected in the years ahead. The impact on our capital expenditure has been minimal in this year's budget. The £8 million cut in our budget has been accommodated and we have avoided any impact on capital budgets, so the capital projects in our portfolio—there are not a huge number of them—will proceed. The cut has not been such a big issue for me as it has been for some of my colleagues in Cabinet.

We fully expect the capital situation to be extremely challenging in the years ahead—that is a fact. I will have to take that into account in my future plans under my portfolio. Thankfully, the capital plans that are already in the pipeline will proceed—indeed, a couple of them are being accelerated in response to the economic recovery. One of those is the aquarium at the lab in Aberdeen. We also have a capital grant for the Campbeltown creamery, and we are working with the companies involved to have that drawn down at the appropriate time.

There will be extremely challenging times in the future, and capital expenditure will take a big hit in that regard. We will be affected across all our budgets, as will all other portfolios, in the years ahead.

John Scott (Ayr) (Con): I have a supplementary question on capital spending and the electronic identification of sheep. Should you decide to develop the Scottish animal movement unit and establish control points to facilitate the development or introduction of sheep EID, is there capacity in the budget for you to do so? Could that perhaps come under the enhanced SRDP portfolio, given the benefits that you have had from currency exchanges?

10:15

Richard Lochhead: There is always flexibility in our budget to respond to such issues. Scotland's response to sheep EID is out to consultation, and how we can best implement the controversial regulation will be decided shortly. The consultation is due to close in a few weeks.

Members are aware that we have major reservations about the net benefits of sheep EID for Scotland's livestock sector and its sheep sector in particular, but, in effect, we must implement the provisions by law, otherwise we will be at risk of losing single farm payments and incurring all kinds of penalties.

I have welcomed the sheep sector's constructive approach over the past couple of months. We have had many meetings with its representatives, and it is clear that a debate is taking place on whether there is any way in which we can make electronic identification work to the benefit of Scotland if we have to proceed with it. The proposal for a database is being debated, because if the scheme is to work properly, a database might be a necessary part of the equation. However, we are not in a position to commit to that now. I have said that I will wait for the views that the sheep sector expresses in the consultation.

We recognise that some form of assistance may be required for the sheep sector in Scotland, whether that is deliverable through the SRDP or

elsewhere. We will continue to investigate that. However, there is always flexibility in our budget to respond to such issues.

John Scott: I take it that you mean that there is a willingness, in principle at any rate, to enhance SAMU if the consultation shows that that is required.

Richard Lochhead: All that I am saying at this stage is that we recognise that the Scottish Government will need to support the sheep sector in some shape or form and that we need to find ways of doing that. The usual state aid regulations and so on have a role to play until we know the best way to help it. We must await the outcome of the consultation. I cannot make a commitment now about what the help will be.

The Convener: Can we move on to the next question, John?

John Scott: Yes. I seem to have been given the rural questions.

The level of uptake in the new entrants scheme is widely recognised as disappointing. It appears that there have been only 15 eligible applicants. The committee is dismayed by that, and I assume that you are not happy with it. Why is the level of uptake so poor? Are you considering any measures to enhance it, given that there are several obvious barriers to the scheme working? I do not think that you need me to rehearse what those barriers are; I am sure that you are well aware of them.

Richard Lochhead: The need to attract new entrants into agriculture has, for perfectly understandable reasons, risen up the agenda over the past two or three years. The Scottish Government and all the parties that are represented in the Parliament are concerned about that.

Members will recall that we made a late amendment to the SRDP within the few weeks that were available to us after being elected. We introduced a budget heading for a new entrants scheme, under which £10 million was made available. John Scott is right. There has been a lack of applications. At the time, the support that we offered was subsidies to pay interest payments on loans to new entrants, but of course, interest rates plummeted within a matter of months, and we are where we are with the global economy. Therefore, the measure was perhaps not as attractive as it could have been.

As part of our response to the Cook report on the SRDP, we announced that we wanted to make adjustments to the new entrants scheme. One adjustment that we have made has been the incorporation of a grant element as part of that support mechanism in the SRDP. A new entrant

can now get more than £40,000 when they start up their own business. We are advertising that, and there have been a number of applicants. However, so far, the number of applicants to the scheme has not been huge—15 new entrants have applied.

John Scott: That is disappointing.

Richard Lochhead: It is. However, many people in the sector have made the point to me that, regardless of the scale of the scheme, at the moment there are many bigger factors that affect people's decisions about whether to enter agriculture. Access to land is a big factor. We have been working with the tenant farming forum to remove some of the obstacles to new entrants getting access to tenanted land and have made progress on the issue. The overall profitability of agriculture is extremely important in attracting new entrants into the sector. Many actions are taking place to support the industry in that regard. The financial support that the new entrants scheme provides is one element. We must continue to evolve the scheme.

John Scott: We were surprised that last year's June returns and agricultural census showed an increased number of people participating in agriculture. Does your department have a view on what has brought about that small but sudden increase in the number of people working on the land?

Richard Lochhead: That is a good question. I would like to take a positive view of the increase. Perhaps more people are seeing employment opportunities in agriculture and land-based sectors. Because the sectors are a bit more optimistic than they have been for a while, more employment opportunities may be becoming available. That is one factor. However, I must also be realistic and explain to the committee that a small change in agricultural employment numbers can lead to a big change in percentages.

Liam McArthur (Orkney) (LD): One of the key mechanisms for channelling both Scottish Government and European Union funding into the farming community and rural communities more broadly is the SRDP. Last week one of your officials suggested that there is no evidence that the way in which systems have been set up, especially in relation to the rural priorities scheme, has disadvantaged some groups more than others. You will accept that that statement was not entirely accurate, given the problems that many people have had with the online application process. The establishment of the Cook review is evidence of that. Are you happy with the rate of spending under the SRDP? Are you confident that in the remainder of the programme funds can be released in a way that sustains on-going activities and does not channel resources to one group

more than to others—in other words, that there will be equality of access?

Richard Lochhead: The SRDP is a massive programme. The increasing number of applications to it is a sign of its success. Yesterday was the closing date for the latest round; officials tell me that there was a record number of applications. A head of steam has been built up. Many people are prepared to apply to the programme and to invest in the future of their businesses in rural Scotland, which is a great sign for the rural economy. They have more confidence in the SRDP than ever before. I am told that there could be up to 1,800 applications in this round alone. That will bring the usual management challenges, but we will do all that we can to fund as many projects as possible. Clearly, they must be good projects and must meet our criteria. The fact that the number of applications is going through the roof is a sign of success. It is a sign of confidence not just in the SRDP, but in the future of rural Scotland.

You asked whether any specific groups are missing out. We monitor that issue and, as you mentioned, have taken steps to make it as easy as possible for all kinds of sectors and communities to apply to the SRDP. When bureaucratic hurdles have been brought to our attention, we have attempted to make things easier. Smaller applications no longer have to go through the whole process. We have made it easier to apply for the forestry grants. Such applications can now be dealt with at a much more local level and do not have to go through a long process. No doubt the breaking down of barriers is influencing the number of applications that we are getting.

I remain of an open mind if a committee member or anyone else brings to my attention specific obstacles, which we would do what we could do to address.

Liam McArthur: The breadth of bodies and individuals who can apply under the SRDP might explain the upturn in applications. I am still hearing concerns about the online application process. As you know, despite the efforts of this Government and previous Governments, some parts of the country cannot access broadband or do not have high-speed broadband. The cost of taking on consultants to navigate a way through the application process can be a disincentive to applicants.

The mapping exercise to ascertain whether people who used to apply are no longer applying will be valuable and I will be interested to hear about your findings. Will you advise us in due course whether there are groups who are reluctant to come forward?

Richard Lochhead: I will be happy to put together a report and send a note to the committee. I will do that for my own purposes as well as at your suggestion, because some changes to the process are recent and we are keen to monitor their success in attracting applications from people in remote communities who do not have easy access to broadband.

We have taken a number of steps to make applying as easy as possible. I would be surprised if there is still an issue for some people; if there is, we must deal with it. Case officers can be allocated to applicants and we have set up hubs around the country where people can access the online process. We are trying to smooth the way as much as possible for people.

There is always an element of bureaucracy when people apply for public money. We must be accountable for the grants that we issue, whether they are for £5,000, £10,000 or £500,000. I will write to the committee when I have had a chance to investigate the impact of the changes on people who do not have easy access to broadband.

Liam McArthur: You painted a picture of record numbers of applicants. You probably know better than most people do that in the early part of the year there was a risk that the level of rejections would be unacceptably high—I think that there was common consent on that. Steps were taken to amend thresholds, which we all welcomed, because that allowed a number of projects to go forward.

However, the approach opened up a risk that it will not be clear to applicants and their advisers where the threshold will fall, so pitching projects and ticking the boxes to show that the criteria are met will be problematic. Can you give applicants an assurance on where the thresholds are likely to fall and what people will need to do to meet the criteria and draw down funds?

Richard Lochhead: Managing people's expectations is always a challenge, irrespective of which Government is in power, because we have a limited budget. The design of the SRDP is such that we must manage expectations carefully, which is not easy to do—I am the first person to put up my hand and say that we have not always succeeded in doing it. However, I defy anyone to come up with a simple solution on managing expectations, given the design of the SRDP.

Liam McArthur: Are your officials working with key advisers to consider the issue in the context of the volume of applications? No one would expect you to be able to make a judgment call at the outset, but things probably become clearer as time goes on. The longer an applicant's proposal progresses, the more costly it is for them, so the earlier that they find out that they will probably not

be successful, the less expensive the process will be.

Richard Lochhead: A change was made in the past few months, so there is now much more contact between agents and advisers and our officials, to ensure that we do what we can to manage expectations and issue information on the likelihood of budgets and so on as early as possible. When, as in this case, up to 1,800 applications are being generated throughout the country, it will always be a challenge to control what is going on, the amount of money for each bid and so on.

As far as rejections are concerned, I should say that 85 to 90 per cent of applications that we have received so far have been partly or wholly funded, which means that a high number of people are getting good news.

10:30

Liam McArthur: I am not disputing that; what I said was that concerns about the initial indications, which had suggested that rejection levels were unacceptably high, had been expressed to officials. I welcome the fact that there has been a positive response in that respect.

At the moment, exchange rates are certainly working to your benefit. To what extent are your programmes manageable through upward and downward fluctuations? Are you confident that you can smooth out the process to ensure that we are not splurging the money in the good times and left short when the exchange rate is not so beneficial?

Richard Lochhead: That is a good question. The current exchange rate is good news for the SRDP and we are confident that we can provide an extra £50 million for the coming year's programme. That substantial investment is good news for the rural economy, although, of course, it is all dependent on the applications that we get.

We are confident about the extra funding because of the draw-down mechanism, which means that we can effectively bank a lot of the money accrued as a result of the exchange rate. Obviously I cannot look ahead at what will happen a year or two years from now, but we are confident about what we can draw down from Europe here and now and over the next few months. As I say, we estimate that an extra £50 million will be available.

Because I am unable to look ahead, we will always have to manage things over the programme's remaining four years. Perhaps David Barnes can explain in more detail the complex mechanism for drawing down euros from Europe, but the principle is that we can bank what we have already received.

David Barnes (Scottish Government Rural Directorate): In the SRDP, we provide funding and then draw down the European contribution towards that expenditure month by month. We have a fixed sum of €679 million to draw on for the life of the programme but, of course, the exchange rate movement means that the money is worth more to us in sterling, which is good.

We manage fluctuations by varying the co-financing rate and, as the draft budget makes clear, the budget figures are based on the original SRDP co-financing rate, which is roughly two thirds Scottish money to one third European money. We have applied to the European Commission for a change to a 50:50 co-financing rate, which will accelerate the draw-down of European money. I should point out that we are deliberately overcompensating a little bit to catch up on the backlog of European money that we would have expected to have drawn down but have not yet drawn down because of the exchange rate change.

As I say, we are planning to increase the European element of the financing to 50 per cent to catch up with the backlog, but we have already discussed with the Commission our intention to reduce the rate once we have done so. The level to which we reduce it, though, will depend on the rate at the time; in any case, we imagine that it will be consistent with the actual rather than an expected exchange rate, which means that it might be somewhere in the high 30s or around 40 per cent. The European rules allow us to change the co-financing rate once a year, so we will need to reconsider the situation year by year.

We have discussed the plan with the Commission, which is happy that this is the correct way to handle the exchange rate movement. Liam McArthur makes an important point about avoiding massive fluctuations in budget availability. We are working with stakeholders through the programme monitoring committee to try to manage the process in a way that, of course, fully exploits the European money, but with as smooth a budget profile as possible.

Peter Peacock (Highlands and Islands) (Lab): I want to probe that a little further. Obviously, it is good news that there is potentially more cash in the system. I understand from exchanges with Government officials at last week's meeting that you have to guard against the exchange rate flipping over in future years and that therefore it might be worth banking some cash. On the other hand, given the current economic situation and the Government's priority of trying to support recovery, are you considering maximising the spend next year, rather than banking money, to stimulate the economy a bit more with that cash? What is the

balance between doing that and banking the cash?

Richard Lochhead: The answer is yes—we want to maximise the spend. The member makes a good point. The reason why we hope to spend an extra £50 million in next year's budget as a result of the exchange rate is that we want to make the most of it—we want to get the money out there, fund applications and get as much economic activity in rural communities as possible. David Barnes has explained about our request to change the co-financing rates. That will allow us to use our element to go further. We can pull down more euros if there is, say, a 50:50 split, rather than a two thirds to one third split. In effect, that means that our funding can be spread a bit further. The amount of money that is going out is greater overall.

Peter Peacock: So for people who have been thinking about applying but who are not terribly sure whether to make that commitment because they are not sure whether the cash would be available, this would definitely be the year to apply, because the chances are that there is more cash in the system this year than there might be in other years. Is that fair?

Richard Lochhead: We have just closed the latest round of applications. A lot of the funding will not go out until next year, which will affect the budget that we are discussing today. Until we understand the pressure that will come from the additional applications that we have received, we have to ca cannie a wee bit.

Peter Peacock: When will you know the outcome of the approvals in that round and therefore be able to cost it?

Richard Lochhead: Officials will start work now on the applications that we have received. That involves costing them and measuring them against the criteria to see which should get the go-ahead and which might need further work. When we know the cost, I will receive a recommendation from officials setting out the number of applications that we have received, the number that are recommended for approval, the cost and the amount that our budgets can meet. That will determine our next round of applications. It is good that the high number of applications in the present round coincides with the £50 million bonus from the exchange rate. That is a good coincidence because, I hope, it will help us to fund a massive round of applications.

Bill Wilson (West of Scotland) (SNP): At our previous meeting, officials explained that a meeting was to take place that day at which they were to begin to consider the research strategy for the coming planning period, which starts in 2011. I presume that that has taken place. You know the

current programme, so I will not recite it to you, but I am curious as to which of the Government's purpose targets and/or national indicators relate most closely to present or future research programmes.

Richard Lochhead: That is a detailed question, so I want to respond to it in writing, after receiving advice from Maggie Gill, the chief scientific adviser.

Bill Wilson: Okay.

Richard Lochhead: I can talk about our future research programmes. We have just gone through the review of our future research priorities, which Maggie Gill led. I am sure that the member will be interested in that. The food sector and climate change are the big issues on our agenda and were the core of the review. I am trying to remember the timescales, but I think that the consultation is now closed and that we are waiting for the refreshed strategy for the future to be published. For obvious reasons, food and climate change will be bigger priorities in future than they have been in the past.

We analyse our expenditure against all the Government's national indicators and how we are contributing to those indicators. Some of the indicators are more relevant to our portfolio than others. I have an analysis here. One indicator is:

"We live in well-designed, sustainable places where we are able to access the amenities and services we need".

That is clearly relevant to our portfolio. Another indicator is:

"We value and enjoy our built and natural environment and protect it and enhance it for future generations".

That is also relevant to our portfolio.

Bill Wilson: During stage 1 of the Marine (Scotland) Bill, we received evidence that there are remarkable gaps in knowledge about the marine ecosystem surrounding the Scottish coast. Has such evidence altered or influenced the proposals for research budgets, in order to fill in those gaps?

Richard Lochhead: Yes, it will, and partly because of the bill. A lot of work has to be carried out as part of the marine plans for Scotland. Further, we have a fantastic marine science community in Scotland, and we are working with it to co-ordinate its efforts better. We have various institutes and universities, and we now have Marine Scotland and the Government's input to that. A lot of work is taking place to co-ordinate marine science in Scotland and to align it to our needs for the future, in relation to climate change, for example, and the requirements of the bill. I fully expect that to be reflected in our scientific priorities for the future.

John Scott: I want to ask about cost sharing in relation to disease surveillance. You will be well aware of the on-going discussion about that. Do you anticipate that the draft figures will include a shift to private sector charging? Do you foresee a need to propose such shifts in a year or two, or will the budget come up from the Department for Environment, Food and Rural Affairs intact, which will mean that there is no need to put cost sharing on to the industry?

Richard Lochhead: We have a commitment from DEFRA to achieve an outcome to negotiations, with a view to the budget being transferred by, I hope, next April. Given the background—the economic situation and the possibility of a United Kingdom election—I cannot quite pin down whether that timetable will be stuck to, but there is agreement that the budget for the animal health agenda will be devolved to Scotland.

The big elephant in the room, which we have not got to the bottom of yet, is access to the Treasury's contingency fund in the event of a significant outbreak. If the UK Government's cost and responsibility sharing agenda passes the whole liability to the industry, and the DEFRA position is that the industry should pick up the tab in the event of any major outbreak, Scotland would be left in a difficult position because we would not have the budgets to cover that.

That is part of the English debate at the moment. We have an on-going debate with the UK Government about the extent to which Scotland would be able to access UK Treasury contingency funds in the event of a big outbreak. That is an outstanding issue. In the meantime, the negotiations over transferring the budget are progressing. Of course, the timetable for the UK legislation on cost and responsibility sharing is two or three years away—I am trying to remember the exact date, but it is after the UK election. We have a long way to go before we know what the legislation will look like.

John Scott: I should have declared an interest at the outset, and I apologise to colleagues for not having done so.

Given that the legislation is some way away, is there a possibility that it may not happen and that overall responsibility for surveillance, or monitoring, may remain with DEFRA? Would you prefer that to happen, or would you prefer us to have liability here in Scotland without the means to pay for it?

Richard Lochhead: Given your party affiliation, I am tempted to say that you might be in a better position to answer that than I am.

John Scott: I hasten to add that I am not making any spending commitments.

Richard Lochhead: I am afraid that the timescale for a DEFRA bill in the UK Parliament and how that will be influenced by the next UK elections is outwith my influence.

10:45

Liam McArthur: The Scottish Government has a budget and responsibility for veterinary surveillance that is directed through the Scottish Agricultural College, as we explored with officials at our meeting last week. Like John Scott, I should perhaps declare an interest, in that the Thurso vet lab services not just Caithness but my constituency, where livestock farming is still an important part of the local economy. I am concerned about any rundown of veterinary services in Thurso. Last week, officials told us that there might need to be a further review of the strategic veterinary surveillance network and of how such surveillance is carried out. My concern is that decisions about the strategic network are being taken by the SAC. Can the cabinet secretary reassure us that the strategic review will happen, and that it will happen quickly?

Richard Lochhead: I am unaware of any intention to reduce the level of veterinary services through any review that the SAC might carry out in conjunction with the Scottish Government. Clearly, a review might consider other factors, such as the location of the services. As I recall, in response to your recent parliamentary questions on the issue, we have answered that we are satisfied with the level of services that are available, and will continue to be available, in Thurso and elsewhere. We have a contract with the SAC to deliver those services, so we would expect to be fully engaged with the SAC over any potential review.

Liam McArthur: Where such services are provided matters. As the cabinet secretary will appreciate, in dealing with bluetongue or whatever, the evidence that is uncovered through the return of samples is time critical. Therefore, centralisation of services is not necessarily in anyone's interest.

Richard Lochhead: I am happy to put on record that I accept that case. I would be concerned if there was any attempt to downgrade the level of services in areas where they are required, and I would expect to be fully engaged in any potential review that might lead to some other outcome.

Liam McArthur: You talk about a potential review. It sounds as if the Government is not committed to having a strategic review of the network.

Richard Lochhead: We are always in negotiation over our contract with the SAC, so I cannot quite pre-empt future discussions over the SAC's contract to deliver veterinary services.

However, I take very seriously the point that has been made about where such services are delivered and the need to protect services in rural areas, including Thurso. I can give that assurance.

The Convener: Let us move on to questions on Marine Scotland.

Elaine Murray (Dumfries) (Lab): The draft budget indicates that Marine Scotland's budget will decrease by some £10.2 million in cash terms, or £11.2 million in real terms. Obviously, some of that decrease is accounted for by the fish veterinary and aquaria facility, for which £3.6 million was brought forward from next year's budget into this year's budget. However, we still seem to have a £3 million reduction in cash terms in Marine Scotland's budget. Where will that reduction come from? Will it come from efficiency savings through the merging of the different bodies? How will that cut—of £3 million in cash terms or £4 million in real terms—be managed?

Richard Lochhead: Let me just get the figures in front of me. One change to the marine budget relates to the fish veterinary and aquaria facility, for which money has been earmarked for this year and has been taken out of next year's budget. That accounts for a reduction of £3.6 million. In addition, the draft budget details a transfer of administrative resources—of £3.2 million per year—to Marine Scotland, but that is neutral. Some efficiency savings will also be achieved through the merger, which the committee asked me about on a previous occasion—information was given at the time. That has led to some of those reductions.

Sorry, is the question about a further reduction?

Elaine Murray: The Marine Scotland budget appears to be reducing by £4 million. Is that accounted for just by efficiency savings, or are there additional pressures? As Bill Wilson pointed out, it has been suggested that implementing some of the data collection requirements under the Marine (Scotland) Bill will cost something like £1 million a year. Will that put additional pressure on Marine Scotland? Will that be manageable within the current budget?

Richard Lochhead: We are confident that any additional pressure from work that has to be carried out as part of the Marine (Scotland) Bill will be manageable. I ask Ross Scott to explain the detail behind some of the figures that have changed.

Ross Scott (Scottish Government Finance Directorate): We provided a briefing paper to the committee on table 6.05—on more detailed spending plans—in the budget document, to show the split between operating and capital budgets. That illustrates that in the current year, 2009-10, the operating budget is £61.7 million; the

equivalent budget for 2010-11 is £62.4 million, which is a cash increase of £0.7 million.

The main swing is in the capital budget. The current capital budget is £18 million, partly because of the money for the fish veterinary and aquaria facility that was brought forward from 2010-11 into 2009-10. That will be repaid in 2010-11, so the capital component drops from £18 million to £7.2 million.

Elaine Murray: So it is not just the aquarium; it is the aquarium plus other elements.

Ross Scott: There is another wee tweak. When the capital was accelerated last year, food industry support was part and parcel of the marine and fisheries budget. The £2 million for Campbeltown creamery, which was included in the marine line, will move at the 2009-10 autumn budget revision, so there is actually £5.6 million of capital acceleration in the 2009-10 figures.

Richard Lochhead: I assure members that for some of the issues that have been mentioned today the changes in the figures are due to changes in capital rather than changes in the core budget.

Elaine Murray: The Marine (Scotland) Bill places additional responsibilities on Marine Scotland with regard to seal conservation. I am looking through my papers, but there does not appear to be a figure attached to the cost of enforcement in the explanatory notes. Has there been any assessment of the cost of enforcement and of the impact on the rest of Marine Scotland's work?

Richard Lochhead: Separate work is taking place to try to cost any additional enforcement responsibilities. The figures in the marine budget do not go down to that level of detail at this stage, but we will consider the matter in the weeks and months ahead.

Elaine Murray: Do you envisage that that will kick in during the next financial year, or will it be a problem for future budgets?

Richard Lochhead: It depends on the timetable for any secondary legislation that needs to be made, so it may come in the year after next, but I cannot give you a guarantee. I am happy to go away and think about the timing of that legislation.

The Convener: I am conscious that Karen Gillon has to leave, so she is welcome to ask her question now.

Karen Gillon (Clydesdale) (Lab): The cabinet secretary will be aware that the fishing industry faces significant difficulties this year, particularly on the west coast. Important discussions are coming up on quotas and days at sea for the coming year. What level of contingency funding

has been set aside for the industry if the negotiations do not go as well as we might hope? Where is that funding in the budget?

Richard Lochhead: We are very conscious of that; as you rightly say, we are in many ways facing a perfect storm, given the current low fish prices combined with the restrictions that have been put in place. We feel that some of those restrictions need to be amended because they are causing huge discards at sea, which is a waste of a precious food resource, and are hitting our fishing vessels. As you can imagine, I am turning my attention to the question of the support that can be made available to the fleet; it is important that support in some shape or form be given next year.

If members will forgive the pun, the first port of call would be the European fisheries fund, and we are assessing the impact of exchange rates on that fund—the exchange rates could mean that additional funds were available. A lot of discussion will be required with the industry on potential measures to help the fleet. This year, we have been helping the fleet through gear trials, fuel efficiency measures and marketing initiatives. It is clear that on-going work will be needed—next year more than ever before—along with some other measures.

Given that the negotiations for this year are just beginning, we do not know exactly what their outcome and, therefore, the impact on the fleet will be. On a contingency basis, I will be working up a plan for the support measures that we will need to take in 2010 to discuss with the industry.

Karen Gillon: What budget have you set aside for that?

Richard Lochhead: We believe that there is potential in the European fisheries fund for additional funds, given the exchange rates.

Karen Gillon: What funds?

Richard Lochhead: It would be premature of me to say at the moment. We have the main budgets and we can dictate the extent to which we call down money. I have a lot of leverage in relation to the extent to which I can call down the European fisheries fund budget. The 2007 to 2013 fund is worth £90 million, of which £50 million is European Union money, matched by £40 million. At the moment, we are assessing the impact of the exchange rate on the European element of that funding. So far, we have committed just under £4 million from the EFF for the catching sector. There are other measures that are supported from the Scottish Government's contribution. All in all, at the moment more than £6 million, with European and Scottish money combined, is committed to the catching sector. I will have leeway, as you can

imagine, in relation to calling down the remaining EFF money.

Karen Gillon: Perhaps you could get back to the committee when you have looked at that in more detail.

Richard Lochhead: I am happy to do that, but I hope you appreciate that, given the negotiations, my first priority is to get a good, fair deal that will help the economy.

Karen Gillon: Absolutely.

John Scott: On the specifics of selective gear and trying to reduce discards, are you focusing money on research or trials? Can you give us more information on that?

Richard Lochhead: The Scottish Government has funded a number of gear trials this year. The Orkney gear trial, of which Liam McArthur will be aware, received £95,000. A trial in Shetland also received £95,000. The success of those gear trials—or at least the extent to which they have been successful—will be built into the negotiations for this coming year, too. We have funded a number of other gear trials in Scotland—there have been five trials altogether. I am happy to drop you a note with the progress of each trial that has been taking place in Scottish waters.

John Scott: On the results of those trials, are there practical, applicable solutions that the industry is likely to take up and access?

Richard Lochhead: One of the reasons why we put the gear trials in place was to provide an opportunity for the fleet to buy days back. Days can be bought back in a number of ways, such as through real-time closure and the adoption of certain gear on the vessels. The Orkney gear is being used by a number of vessels and has benefited them. The gear is playing a conservation role and has allowed some days to be bought back. Clearly, we have to build on that. I am aware that the fleet do not see the gear trials as a panacea.

Liam McArthur: As Karen Gillon said, we hope that the December talks turn out better than it appears that they will at the moment. You are on record as suggesting that a 10 per cent cut in effort is almost inevitable under the current regime. In the past, you have been a firm advocate of a paid tie-up scheme. Is that one of the issues that you will be discussing with the industry? Is that something for which you can use the EFF?

Richard Lochhead: Yes. We will be looking at all potential measures that are available under the EFF.

The Convener: We will move on to a question on flooding from Peter Peacock.

Peter Peacock: I want to return to one of my favourite pet subjects. I do not want to rehash old ground, but we have established that the previous Administration built up flood funding of about £40 million, which you have maintained in cash in the budgets for which you have been responsible. As I understand it, although that sum is now transferred to the local government line, it is not being added to in the coming year's budget.

You, more than most members, will be aware of this summer's flooding events, not least those in your own constituency. In looking towards the coming budget, did you think about reprioritising any spending to add to the £40 million and to increase the capacity of local authorities to undertake the work that they need to do? Was that a consideration when you drew up the budget?

11:00

Richard Lochhead: As you will be aware, the funding for flood alleviation schemes has been built into the local government settlement. The issue is therefore primarily one for John Swinney in relation to his agreements with the Convention of Scottish Local Authorities. Any changes to that formula would have to be the subject of discussion between John Swinney and COSLA.

You quoted a figure, and I have asked for information on how much money was spent on flood alleviation schemes from 1999 until the present day. Back in 1999, £4.5 million was spent; in 2000-01, just over £3 million was spent; and in 2005-06, £4.7 million was spent. The figures are similar, give or take £1 million here or there, for each year up until our first year of government: £32 million was spent on flood schemes in our first year of government, and over the past 12 months—the second year of this Government—£24 million has been spent on flood schemes. If I am looking at the figures correctly, I can see that £56 million has been spent on flood schemes over our first two years; in comparison, a lot less than that was spent during the first seven or eight years of devolution. My message to you is that the current funding arrangements appear to be paying dividends in allowing flood schemes to be built the length and breadth of Scotland.

As I said before, flooding is increasingly an issue in Scotland. I have seen it at first hand in my own constituency, as you said. As a nation, we will need to have difficult debates in the future about how to cope with the increasing risk of flooding in our communities. At the moment, substantial investment is taking place in Scotland.

Peter Peacock: I am grateful to you for giving us those figures. You obviously came prepared. That illustrates exactly what I said: you have been the beneficiary of the previous Administration's

building up of the budget to £40 million, which has allowed you to spend those amounts over the past two years.

I want to clarify a point about policy. I understand from what you are saying—notwithstanding the fact that you are the lead minister for flooding—that you do not anticipate any resource from your budget being added into the local government pot in future years, as John Swinney is responsible, with COSLA, for deciding how to allocate the funds. As far as you are concerned, now that the £40 million has transferred to the local government line, it is for the Cabinet Secretary for Finance and Sustainable Growth to decide to allocate any additional funding for flooding to local authorities; it is not a matter for your budget in any shape or form. Is that correct?

Richard Lochhead: Yes. You are referring to flooding funding, which is an issue that is shared between the Scottish Government and local authorities, which have primary responsibility for building the schemes. The current funding arrangements of the Scottish Government, led by John Swinney as Cabinet Secretary for Finance and Sustainable Growth, are that the funding is built into the local government settlement, as mutually agreed by COSLA and the Scottish Government.

Peter Peacock: Notwithstanding that, you are still the lead policy minister for flooding, and that will continue. However, in very recent times, one thing has become apparent in relation to not only the arrangements that you and I have outlined for how local authorities get the cash but the honouring of the commitments that were made prior to the transfer of the funding. One of the schemes was for the Water of Leith, and the City of Edinburgh Council has discovered that the cash that it got—being a previous commitment, it was honoured—is not sufficient to meet the bill, partly because of price inflation and the passage of time. The council has had to split the contract into two parts, which to an extent will delay the phasing of the scheme and the protection works, but which will give the council an opportunity to find the money to meet the rest of the costs. Is that situation likely to repeat itself? Will that become the pattern? Do you anticipate, with your policy overview, that the same thing is likely to happen across Scotland to some of the big schemes that have to be financed over the coming years?

Richard Lochhead: The large flood alleviation schemes are complex projects, and the Scottish Government cannot micromanage them; that is the responsibility of the local authorities that promote the schemes. They have to manage their budget in conjunction with the settlement that they receive from the Scottish Government.

As you know, at the moment, the formula takes into account economic need. A formula can only ever take into account information that is available to it, which means that the matter that you refer to will always be an issue.

The existing funding arrangements take into account the original timescales that were provided to the Scottish Government and COSLA. That will be a matter of debate as the next spending review approaches.

Peter Peacock: In discussions with colleagues about priorities for the future, have you been advocating the need for higher levels of spending generally to provide flood protection?

Richard Lochhead: The Government recognises that flooding is becoming an increasingly important issue in Scotland, and we will have to have discussions with COSLA to reflect that. As I said, the next spending review is not yet under way. No doubt, when it is, the issue of flooding will be part of the discussions that will take place with COSLA.

Elaine Murray: A similar issue exists around the zero-waste strategy. Some £26 million is being transferred from the zero-waste budget to local government. Is that now outwith your influence? Can you no longer ensure that that money is used for the zero-waste strategy? That is particularly important, given the consultation that is under way around the new strategy.

Richard Lochhead: We discussed with COSLA how the zero-waste fund—£154 million over three years—should be allocated, and the decision was taken, with COSLA's agreement, to allocate a proportion of it this financial year, using a formula that gives each local authority part of that money. Discussions are on-going over the remaining element of the zero-waste fund. Clearly, we can reach an agreement with COSLA about what that money should be used for and whether it should be used to meet certain targets or to fund existing programmes.

Elaine Murray: Does every authority have an outcome in their single outcome agreement that refers to the achievement of zero-waste targets?

Richard Lochhead: I will have to write back to you on that. Many have such an outcome, but I would have to find out whether they all do.

The Convener: That concludes questions to the cabinet secretary and his officials. I thank them for their attendance. Any supplementary information should ideally be with the clerks by next Wednesday, to inform the drafting of this committee's report to the Finance Committee.

11:08

Meeting continued in private until 12:56.

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