

TRANSPORT AND THE ENVIRONMENT COMMITTEE

Wednesday 9 May 2001
(Morning)

Session 1

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TRANSPORT AND THE ENVIRONMENT COMMITTEE 13th Meeting 2001, Session 1

CONVENER

*Mr Andy Kerr (East Kilbride) (Lab)

DEPUTY CONVENER

*John Farquhar Munro (Ross, Skye and Inverness West) (LD)

COMMITTEE MEMBERS

*Bruce Crawford (Mid Scotland and Fife) (SNP)
*Robin Harper (Lothians) (Green)
*Maureen Macmillan (Highlands and Islands) (Lab)
*Fiona McLeod (West of Scotland) (SNP)
*Des McNulty (Clydebank and Milngavie) (Lab)
*Bristow Muldoon (Livingston) (Lab)
*Mr Murray Tosh (South of Scotland) (Con)

*attended

THE FOLLOWING ALSO ATTENDED:

John Brown (Scottish Executive Enterprise and Lifelong Learning Department)
Shirley Laing (Scottish Executive)
Nikki Munro (Scottish Executive Rural Affairs Department)
Mike Neilson (Scottish Executive Rural Affairs Department)
David Reid (Scottish Executive Rural Affairs Department)

WITNESSES

Sarah Boyack (Minister for Transport and Planning)
Bob MacLeod (Highlands and Islands Airports Ltd)
Sandy Matheson (Highlands and Islands Airports Ltd)
Ross Finnie (Minister for Environment and Rural Development)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Tracey Hawe

ASSISTANT CLERKS

Alastair Macfie
Neil Stewart

LOCATION

The Chamber

Scottish Parliament

Transport and the Environment Committee

Wednesday 9 May 2001

(Morning)

[THE CONVENER opened the meeting in private at 09:33]

09:48

Meeting continued in public.

The Convener (Mr Andy Kerr): Welcome to the 13th meeting this year of the Transport and the Environment Committee. Our main item of business this morning is further evidence taking on the Executive's budget proposals. This is not the best room in which to hold meetings; it can be difficult for witnesses and committee members. However, we will do our best in this echoing environment. The witnesses are so far away that I feel like sending a pigeon over instead of speaking to them. However, that is life when we hold committee meetings in the chamber.

I have received no apologies, although Robin Harper has said that he might have to leave for business in another committee. He might sneak off, but I am sure that he will return.

Items in Private

The Convener: Agenda item 5 invites us to review the evidence that we will take this morning on the budget process. I therefore ask the committee to agree to discuss that item in private.

Members indicated agreement.

The Convener: At our meeting next week, we intend to discuss our draft budget report. Following previous practice, I ask the committee to agree to discuss the draft report in private.

Members indicated agreement.

The Convener: Agenda item 6 invites us to consider the next steps in our inquiry into the management and maintenance of trunk roads. As the discussion will involve our approach to evidence taking, inquiry planning and other matters, I ask the committee to agree also to discuss item 6 in private.

Members indicated agreement

The Convener: As ever, our discussions in private will in due course be made public through the minutes.

Budget Process 2002-03

The Convener: Agenda item 3 is the substantive matter for discussion today. It is our second evidence-taking session on the Scottish Executive's expenditure proposals for 2002-03. Our approach to the Scottish budget this year has been to take a strategic overview, while taking a special interest in spending on renewable energies and Highlands and Islands Airports Ltd. We will therefore take evidence from representatives of Highlands and Islands Airports Ltd and later from the Minister for Environment and Rural Development and the Minister for Transport and Planning.

I welcome our first set of witnesses. From Highlands and Islands Airports Ltd, we have Bob MacLeod, the managing director, and Sandy Matheson, the chairman. They are accompanied by John Burns, the secretary of the company, and George McHollan, who is the work service support manager. They are here in an advisory capacity. Members should direct their questions to the managing director and the chairman, because Mr Burns and Mr McHollan are present primarily to advise them. We must remember that the context of the discussion is consideration of the Executive's spending plans.

To be helpful and for the benefit of the witnesses, I will talk briefly in simple terms about the aim of the first stage of the budget process. The committee will address the stated aims of Executive policies that relate to the committee's remit. We will discuss whether those aims are appropriate and whether funding is sufficient to meet those aims. We might also consider whether spending is appropriately targeted. If today's witnesses feel unable to express a view on any matter that we raise, they should feel free to say that it is not a matter for them. We are focusing consideration on the Executive's proposals. We will allow Executive ministers to answer for themselves on those matters.

It would be appropriate for the witnesses to introduce themselves to the committee. You are welcome to make a short opening statement. Thereafter, I will hand over to members for questions.

Sandy Matheson (Highlands and Islands Airports Ltd): I am the recently appointed chairman of HIAL. I would like to make a short opening statement. As the convener said, I am accompanied by Bob MacLeod, the managing director, John Burns, the secretary, and George McHollan, the director of operations.

As the committee knows, HIAL is a limited liability company under the provisions of the

Companies Act 1985. The Minister for Transport and Planning holds a majority in the nominal value of the share capital of the company. By virtue of the 1985 act, the directors of HIAL have legal and personal responsibilities, especially on health and safety and such matters. To my mind, those responsibilities are at least as significant and onerous as the responsibilities that we have on fiscal prudence and accountability.

My predecessor as chairman of HIAL, Peter Grant, oversaw the company's transfer from the Civil Aviation Authority to the Scottish Office and, after the creation of the Scottish Parliament, to the Scottish Executive. I place on record my tribute to him for the help and guidance that he gave the company through that difficult period.

I took up my appointment on 1 March 2001. I recognise that, because the constitutional changes that Peter Grant oversaw have bedded down, the time is opportune to expand the company ethos from that almost of a private sector company to that of an organisation that has a higher public profile and that has all the transparency, accountability and partnership working that are mentioned in the written statement that we have supplied to the committee, and in the accompanying statements to the budget process.

I thank the convener and the committee for the invitation to give evidence. I applaud the format of the annual budget process and the scrutiny. It is a welcome change to be able to discuss those matters and make known our point of view.

I have a small comment to make in relation to the Scottish budget planned expenditure, and as I make it I am mindful of my own limited experience and knowledge of the process. However, given the fact that the primary Scottish budget document is subtitled "Making it work together", and given that in the whole sphere of politics in Scotland there is a growing recognition of partnership working and the integration of mechanisms to achieve common goals, I wonder whether there should be a separate budget head for money that is allocated specifically to partnership working, or whether there could be some other system to encourage ring fencing within the budgets of departments that have a remit to encourage joint spending.

Whatever the view on that, much has to be done by us all to free up means of interdepartmental virement. At all levels, we must get beyond the acceptance of the notion of partnership, whereby we tend to say that it is a good idea as long as it relates to somebody else's budget and not our own. There is still a substantial amount of protectionism of one's empire or department, which must be overcome in the interests of integrated working.

With regard to the current budget allocation to

HIAL, I warmly welcome the substantial increase in the subsidy, which was an outcome of the comprehensive spending review. In summary, I believe that the budget is well focused and targeted, although that will be the subject of our discussion this morning. However, I emphasise that I am not saying that that more subsidy is unnecessary. Indeed, like the organisations whose representatives gave evidence last week, HIAL can use increased subsidy so that not only do we deliver safe, affordable, efficient and cost-effective services, but we encourage social and economic development in the Highlands and Islands and consider means of countering remoteness, supporting fragile economies and reversing depopulation. I believe strongly in that, and make it one of my objectives as chair of HIAL. Those statements have already been made, but I believe that HIAL is a key player in the matter of the development in the widest sense of the Highlands and Islands.

The Convener: Thank you. Your points about partnership and budgets were well made. That is an area that the committee has examined in the past, and it forms part of our current considerations.

Maureen Macmillan (Highlands and Islands (Lab): You have talked about how important you think air transport is to the Highlands in social and economic terms. Could you expand on that? I know that there is concern that ordinary people going about their everyday lives cannot afford air transport and that the planes are always filled with MSPs and Highland Council or Highland Health Board officials. How might you change that?

Sandy Matheson: I shall share with Bob MacLeod the response to that question. My preliminary answer is that there is a real perception, just as you say, that the only people who can afford to travel are those who are travelling on some public account. That is certainly a common perception. We recognise that prices are high, but there are questions about the complexity of the discounted fare schemes. There is also a strong, but not entirely correct, view that prices are in some way related to the landing charges that HIAL is compelled to impose.

However, there can be no doubt that for some areas, air transport is the prime means of transport, in terms of emergency and convenience, and for doing business. It is not simply a matter of people from remote areas wanting to get to the centre. It is at least as important for people from the centre to get to those remote areas to encourage business and to take their business to remote areas. As has been proved by the studies that we have done, the general supposition is that, if we can encourage air transport by reducing air fares and make air

transport a more acceptable way of handling things, that will free up the economic situation substantially. Bob MacLeod will say a little more about that.

The other point is the difficulty of aircraft scheduling. At the moment, because of the closing hours of airports, we sometimes find that airlines are scarcely able to utilise their aircraft economically because of the necessity to get to airports when they open in the morning, and to do their business and get back out of the airports by the time that they close. That is a significant part of the problem. The problem is not just about fares; it is about aircraft utilisation and other pressures on the airline companies. There is a secondary aspect in relation to tourism, which tends to be in relation to Inverness airport. I will ask Bob MacLeod to address that issue.

10:00

Bob MacLeod (Highlands and Islands Airports Ltd): There is a perception that lowering our charges would have a substantial effect on ticket prices. But the fact is that airport charges—I am talking about both ends, because both ends of a route make a charge—represent somewhere between 10 and 12 per cent of an airline's costs. We have considered what effect it might have on the average ticket price in the Highlands and Islands were we to get another £8 million of subsidy and therefore levy no charge on airlines. If the airlines were compelled to pass that on to the ticket price, its effect would be a saving of only £10 or £12 on the average sector ticket price.

On tourism, John Burns and I have just started to examine what effect it would have on our budget if we reduced our international charges. We levy a charge of about £16 per arriving passenger for an international flight, which is about £10 more than we charge for a domestic flight. The effect of that on our budget is not significant. We might shortly bring that to the attention of the board for it to consider.

Maureen Macmillan: High fares are a big issue in the Highlands. The HIAL accounts indicate a decline in performance and reductions in traffic. Can you explain the decline in business, and is it confined to specific airports? Is it a developing trend?

Bob MacLeod: There has been a decline in traffic in the islands in the past two years, which seems to have recovered somewhat. I am hopeful that we are seeing the start of an upward swing. There was a significant decline at Sumburgh because of the loss of the oil traffic. Our last oil customer there was allowed by Shetland Islands Council to move to Scatsta, which was a great loss to our revenue. All in all, we lost millions of

pounds of revenue when the oil companies started to leave Sumburgh.

When we examined the matter, there were two main reasons for the oil companies leaving Sumburgh. One was because at Scatsta they are about 10 minutes flying time closer to the average oil field. Over a year, that is a significant saving in helicopter costs. The main reason they left was to join the Scatsta consortium, which is a consortium of oil companies that buys helicopter and fixed-wing time at a fraction of the cost that the companies were paying previously. That was a huge compulsion for the oil customers to move. We lost a significant amount of revenue.

On the issue of traffic decreasing, I believe that we are seeing the start of an upswing, but fares must have an impact on that.

Maureen Macmillan: Has the decline been reversed, and will the upswing continue? Have you any way of predicting that?

Bob MacLeod: It is difficult to know. We have seen some encouraging signs in the past year, which are continuing into this financial year.

Maureen Macmillan: The Executive envisages an increasing burden being placed on the taxpayer in support of air services in the Highlands and Islands. There has been a decline in traffic, which affects your financial status. You will need to improve the cost-effectiveness of the delivery of the lifeline air services and the supporting infrastructure. How will you do that?

Bob MacLeod: We have targets and objectives. We always seek to set ourselves targets that are put in terms of the cost per passenger and the revenue that we get per passenger. I am happy to say that usually we achieve those targets. We challenge ourselves and our spending constantly.

The Civil Aviation Authority holds us to a very prescriptive regime, which—it is to be regretted—shows no signs of easing. We had hoped that we would move to a system that was based on safety, under which we could have more authority than under the Air Navigation Order 2000, but prescriptive regulation continues. We are challenging that and speaking out against it, but while it remains, our costs will remain. The Civil Aviation Authority makes no distinction between Barra and Heathrow and applies the same prescription, except that it is under a different category. The categories and the hours of opening set our costs.

Bruce Crawford (Mid Scotland and Fife) (SNP): Prices are high, as you have said. If we cannot get the ticket price down significantly through subsidy, we need to find some other method by which to do it. We need to get more people through the gate, because if we get more

people through the gate, that obviously will help you folks. How do we get ticket prices down? What form of incentive might be able to do that for the airlines? What thought has been given to that? Can you give the committee any suggestions?

The Convener: I want to add a bit to that question. In a previous meeting, other forms of transport were discussed. You are in the transport business. What impact has investment, or the lack of it, in other forms of transport such as rail, road and ferries had? Has that affected passenger usage?

Sandy Matheson: I will make a quick introduction to that. The depopulation of the remote areas is a substantial problem. There is also a general downturn in the economy. The best way to reduce prices is to increase the number of passengers. There is a chicken-and-egg situation, however. The question is whether it is best to increase passenger numbers by reducing fares, or by doing all the other things that produce dynamic and vibrant communities that can afford the fares—although perhaps they would need to be slightly lower than they are. The solution is not simply to reduce fares or improve the service that we give, but to do all the other things that make an economically viable community.

We also need to take into account—the convener made this relevant point—the effect of transport systems on the viability of airlines' routes. For instance, we are not quite sure what the effect will be on Barra of the Eriskay causeway, which connects Eriskay with South Uist. That is an example of how our circumstances can change by virtue of other transport infrastructure that has been provided at the taxpayer's expense.

That takes us back to the point that we need to look at matters in a wider system. Although it is necessary to some degree, I am not convinced that subsidy to decrease the cost of fares will be the answer. People do not travel only because the airline is cheap; they travel when they have to and because of other matters that relate to their businesses and so on. It is a wide question, which concerns not only HIAL—although we are trying to deal with it—but Parliament and the other departments and structures within the general economy of our place.

Bob MacLeod: I endorse what Sandy Matheson said. I described what the effect would be if we were to levy no airport charges; that effect is not significant. A significant effect would take, say, £50 off the sector ticket, or even £100. The problem is much broader than one that would affect only HIAL. I do not know whether the airlines have an answer. I must say that the airlines in the north of Scotland bravely scratch a living. I mean "bravely" and not "barely"—they do

very well by the population that they serve. They are our principal customers. I do not have an answer. The intervention that would be necessary to bring down the ticket price would have to be huge.

Bruce Crawford: The last point about intervention being at huge cost answers the question. It is good that the subsidy is going up and helping to support an important service into the Highlands, but we have a standing passenger base or a declining one, and the ticket prices are not becoming cheaper out of the subsidy. It has been said that ticket prices are a barrier. How do we get them down? Can we make better use of the subsidy to make that happen? I do not know whether I have the answer either.

The Convener: A concept that was put to us at a previous meeting was possibly to franchise the whole Highlands air network and attract a big player, perhaps one of the major discount providers. Have you considered such a concept?

Bob MacLeod: No. Turnover is the problem. The so-called low-cost airlines are not low cost because all airlines bear the same costs, apart from some trimmings. The discount fare airlines depend on a huge turnover of passengers, and that is not happening in the Highlands. Airlines have flown into places such as Prestwick from which Ryanair has operated successfully for several years. It has given the travelling public of Scotland a great service—they have been attracted to the Ryanair deals. The problem is that the Highlands does not have a density of population that will fill the planes of discount operators.

Sandy Matheson: It must be taken into account that we operate 10 different airports, each with different passenger levels and economic bases. It is a complex question. With my current knowledge of the company, I cannot help the committee at this stage. I keep returning to the thesis that HIAL has been cost-effective. We cannot envisage a situation in which the airlines will be in a position other than being dependent on subsidy because of the low population base, not to mention the economic base. It is a complex matter, and HIAL will have to continue to look for assistance and try to be as cost-effective as possible. It is a sad fact that remoteness means a cost being borne on the public purse.

John Farquhar Munro (Ross, Skye and Inverness West) (LD): There always seems to be a financial impediment in such matters. Given the current financial backdrop to your operations and bearing in mind the privately funded new terminal at Inverness, is there potential for the private sector to play an enhanced role in the provision of air services to support the Highlands and Islands? What would be the appropriate model? How can

the wider economic and social goals be safeguarded?

Bob MacLeod: The private finance initiative that we carried out at Inverness was based on fairly simple questions, such as: do we spend £6 million today, or do we spend £40 million over the 25 years; what is the present net value; and is it value for money? The answer was that we seemed fine. It has been a successful process in respect of the operation. It has meant that we are paying increasing sums to the terminal operator, but that was envisaged. Profit and loss has a current hit of about £1.2 million a year, which will rise as Inverness traffic increases.

Whether to introduce more private funding into airport infrastructure has been considered in the past. I have no doubt that HIAL could operate as a privatised organisation, given that it is still subsidised. Someone who was already an airport operator would have considerably lower overheads, in that he could take on HIAL and only marginally increase his own overheads. We would certainly have a significant cut in overheads in that case. We have to maintain our central support unit—our head office—to support the airports and to give them the services that they need for such operations as their fire service management.

I have talked to officials about the matter, and the indications that we are getting are that the proposal would not be very popular politically, but it is not for me to comment on that.

10:15

John Farquhar Munro: Reference has been made to the fact that Shetland Islands Council might have considered taking over Sumburgh airport, and that that might be a model to adopt. How realistic would such an initiative be, and what do you believe the financial implications would be, not only for HIAL but for the local authorities concerned, for the Executive and for the taxpayer?

Bob MacLeod: Shetland Islands Council has expressed an interest in taking over control of Sumburgh airport. I have sat with the council's convener and chief executive and talked the matter through. I can see where the council is coming from and can see what its objectives are. However, as far as I can tell, the council still expects that the subsidy for the airport will come from the central purse. I am not sure about that—the council has not been very clear about it. My personal view is that it expects subsidy from the centre when and if it takes control of the airport.

Sandy Matheson: I would venture that, in simple terms, the transfer of our functions to the local authority would not significantly alter the situation; it might make it worse in many ways. Shetland is a peculiar—I use that word in the best

sense—area and council, with its own sense of independence and its own particular financial arrangements vis-à-vis the Government. I fear that, if local authorities were to take over our services, a number of things would happen. The public purse would scarcely be relieved, because the funding would, I suspect, merely be channelled through the local authority subvention.

On top of that, a question of differing priorities of spending on essential airport infrastructure in each local authority might arise. We might get a patchiness of service delivery, depending on the other priorities of each local authority. If there is a view that airports could be looked after, managed and developed in some way other than under the aegis of HIAL, I would automatically look to the wider picture, which is at a different level from local authorities.

If we are being taken in the direction of some sort of integrated transport system, it must be considered carefully. I think that that is the direction in which we should go. Our services cannot be fragmented, as they would be with local authority intervention.

John Farquhar Munro: I think that we accept that Shetland Islands Council finds itself in quite a different situation from that of any other authority with regard to revenue.

Given your wide experience in the provision of air services in the Highlands and Islands, gentlemen, can you present us with any model or suggestion that might secure the area's social and economic objectives into the future?

Sandy Matheson: I will speak in general terms. I feel certain that it is a matter of partnership working, not only with public authorities, but with private organisations. For instance, we are experiencing considerable pressure from people in the east Inverness area in relation to tourism and so on. That is not a matter solely for us, but it is an area where we can help to encourage organisations. That raises interesting questions about whether we should assist small organisations, such as tourism organisations, and about the extent to which we expect them to take on tasks such as marketing.

There is a chicken-and-egg situation: should we make substantial investments on the off-chance—or the well-judged chance—that there will be an increase in business that is dependent on other people's marketing? For example, the tourism industry is totally dependent on adequate marketing. Which comes first—the marketing and the influx of visitors, or the creation, at vast public expense, of the means to take them in? The answer is: a bit of both. That is why I maintain that HIAL's most important task is to remain in touch with all those organisations in order to see how we

can work jointly on organisation, infrastructure and financing, to increase the economic strength and acceptability of the area. I am afraid that I do not have all the answers, and I apologise for the fact that I keep coming back to joint working.

The Convener: Maureen Macmillan has a supplementary question on that point.

Maureen Macmillan: What is the potential of Inverness airport? If it becomes more successful and attracts people from overseas to the tourism industry, is it possible that money generated from the airport could be used to support services elsewhere in the Highlands?

Bob MacLeod: In the past, funds generated by Sumburgh airport—which was the company's only profitable airport—were used to operate other airports. The same would happen with Inverness airport. The company would use the revenue that it earned to service its infrastructure in whatever way was thought necessary.

Inverness airport is at an exciting point. We are considering 24-hour operation and other interesting possibilities for the airport, in conjunction with Highland Council and Highlands and Islands Enterprise. We believe that, if we put all those things together over the next five years, we will transform Inverness airport.

Robin Harper (Lothians) (Green): What are your views on safeguarding the slots at Gatwick, which many people believe are essential links to London?

Bob MacLeod: We have strong views about the slots at Gatwick and how safe they are. To put it simply, if nothing is done to ease the pressure on runway capacity in the south-east of England, the slots at Gatwick may well go the way of our slots at Heathrow. That is the law of supply and demand and the law of economic pressures. The question is whether the Government has the desire to stand up to the big business airlines, particularly British Airways, which virtually controls Heathrow and Gatwick. I am even more concerned about British Airways' acquisition of British Regional Airlines, which held four of our six Inverness slots at Gatwick. This coming Friday, we are hosting a meeting with the Scottish Council for Development and Industry, the man who handles the allocation of slots and a consultant who is well known to us and who is the special adviser to the Transport Sub-Committee of the House of Commons Select Committee on Environment, Transport and Regional Affairs. They will talk to the SCDI about the fragility of those slots.

We are concerned about and pay much attention to that issue. We are trying to pass the message on to people that unless something is done to ring-fence the slots, there is no guarantee that they will remain available.

Robin Harper: Thank you for your answer. As a passing observation, I note that, at weekends, British Airways seems to be operating large aircraft to London and back that are filled to only a quarter of their capacity. Would you like to comment on that? Is it hogging slots at a cost to itself?

Bob MacLeod: Recently, BA has made a move on the aircraft that it uses for its domestic and European services. It now goes more for the smaller Airbus A320 and the Airbus A319 rather than the Boeing 757. Perhaps it is considering larger numbers of smaller aircraft, each one of which needs a slot.

BA has to satisfy its shareholders. From the point of view of a BA director, when Inverness had slots at Heathrow airport, those slots were not achieving for BA what they should have been achieving. Naturally enough, they were moved to Gatwick airport—that is business.

Robin Harper: Do you have any thoughts on how to address the shortages in air traffic controllers that have been mentioned?

Bob MacLeod: Yes. The issue is in my thoughts most days, if not every day. There is a 15 per cent shortage of air traffic controllers in Europe.

The Convener: I can hear Robin Harper's pager. Are you being paged to go to another meeting?

Robin Harper: I will get my final question in.

Bob MacLeod: I understand that there is also a worldwide shortage of air traffic controllers, but I can comment on Europe only because the information is from National Air Traffic Services.

Our problem is that we can get and screen trainees, but we cannot get slots at training schools for them. There are two training schools. One is run by Serco and the other is run by National Air Traffic Services. We can never get any slots at National Air Traffic Services because it has enough shortages of its own. We get an average of four slots a year in Serco. We are currently five air traffic controllers short of the full complement and have been five short for the past two years. That has caused us some embarrassment.

In the past month, a new school has been opened in south Wales. Our air traffic services manager has stayed very close to those people to guard as many slots there as possible. We have talked to Highland Council and Highlands and Islands Enterprise, but not in any great detail. We have broached the subject with them of the potential for an air traffic controller school in the Highlands.

The Convener: Perhaps Robin Harper should

head to his committee—I know that he has to deal with an amendment. I will pick up on his final question about the standards that are expected of smaller airports and huge airports, which he has mentioned.

Can other models be developed? Is there an argument that those standards cannot be reduced without endangering health and safety?

Bob MacLeod: Yes. As a result of a Cranfield University initiative a couple of years ago, we have started to make very strong contacts with other authorities in Europe—particularly in peripheral regions. We have considered how Iceland, Sweden and Norway operate. Such countries have remote area air services.

Recently, there was a conference in Jersey on the subject—even people from the Northwest Territories were there. People have remarkably similar problems, but they tackle them differently. I have become very friendly with the head of the CAA in Iceland and have been considering the model that is used there. It is not as prescriptive as our CAA. Indeed, I am calling publicly for the CAA to consider how it does things. We think that it should seriously consider licensing aspects and what should be done where there are small airports with very low traffic density. Where we now have prescribed air traffic services, I would like at one move, if you care, to tackle our air traffic controller problem and change those units to flight information services. That is what happens in, for example, Norway and Iceland. That is just one example of how the CAA needs to be more far-sighted than it has been recently.

Mr Murray Tosh (South of Scotland) (Con): That sounds like quite an interesting line of thought to pursue. Have you pursued it to the extent that you have estimates of the cost reductions that such innovations might bring about? If you have, where might those savings be usefully deployed? Would you argue a case for deploying them for capital investment or would you plan to make reductions in passenger fares? Might you be able to make a reasonable reduction, or would it be relatively marginal?

Bob MacLeod: To be frank, I have never sat down with a piece of paper and worked out what the actual cost would be. That would not be an easy sum to do, although we could certainly have a stab at it. If you would like, we could come back to you on that.

10:30

Mr Tosh: The option of units becoming flight information services has been raised with us; we liked the sound of it as an exercise in getting better value for money all round. We are also interested in how we might reduce costs to the

users of the services. We encourage you to do a bit of work on the cost. If it does not look to be promising, by all means tell us at an early stage. The committee would like that to be pursued.

Sandy Matheson: We will take that on board. However, I sound a note of warning: there is a substantial public relations and political problem with being perceived to reduce safety standards in order to do other things with the money. It is almost like suggesting a second-class service for remote areas in terms of safety, which is, of course, a prime consideration. That is outwith our control to the extent that the regulator, rather than us, has to change standards and attitudes. You are making a point that we must follow up, but we have to do so with careful handling of public and other perceptions.

The Convener: That point is well made.

Bob MacLeod: If I saw the slightest bit of movement from the CAA in the direction of allowing units to become flight information services, I would certainly be doing the calculations. However, at the moment, we do not see any.

The Convener: I thank you for your attendance this morning. I appreciate your coming; you have made an effective contribution to our considerations.

Sandy Matheson: Thank you for having us.

The Convener: The Minister for Environment and Rural Development is now in position, surrounded by protection and advice. I warmly welcome the minister and all his officials to the committee. I see a few familiar faces. Thank you for coming along. As usual, I will allow the minister to make opening remarks. Perhaps an introduction to the ministerial team would be useful. Then I will go straight to members for questions.

The Minister for Environment and Rural Development (Ross Finnie): Good morning, convener. The heavy squad is nothing to do with my nervousness at being called to give evidence. I would not want anyone to take offence at the presence of my officials. I will let them introduce themselves, rather than follow the foolish procedure of trying to introduce them myself.

Nikki Munro (Scottish Executive Rural Affairs Department): I am head of the environment group.

John Brown (Scottish Executive Enterprise and Lifelong Learning Department): I am head of the energy division of the enterprise and lifelong learning department.

David Reid (Scottish Executive Rural Affairs Department): I deal with finance for the rural affairs department and the development

department.

Mike Neilson (Scottish Executive Rural Affairs Department): I am head of the water services unit in the environment group.

Shirley Laing (Scottish Executive): I am private secretary to the Minister for Environment and Rural Development.

The Convener: Good morning to you all.

Ross Finnie: I am pleased to attend the committee to outline the Executive's plans for spending on our environment and to take such questions as the committee wishes to pose.

The environment is at the heart of the Executive's priorities. That is reflected in the major spending, which will reach £539 million by 2002-03. The water authorities will spend the largest amount. The borrowing that will be available to the water industry in 2002-03 will be 20 per cent more than last year.

The Executive has grasped the nettle after years of inactivity. The spending programme will replace much of our decaying Victorian infrastructure and modernise our drinking water and sewage treatment systems. Dumping of sewage sludge at sea has ended. The bathing beaches are improving.

The spending will also improve the quality of our drinking water. All of us were brought up to believe that Scotland's drinking water was among the finest in the world. Unfortunately, that is not the case. We are investing to change that. I hope that that will produce major health benefits.

Our investment programme in the water industry is one of the largest ever to be undertaken by the Government in Scotland. It is not the most glamorous or the most newsworthy task, but it is vital. It has been estimated that it represents as much as 40 per cent of all civil engineering activity in Scotland.

For those who have studied the details of our spending plans for water, I should explain a major change that we have introduced—resource-based budgeting. I know that all members have been to the library to check on resource-based budgeting. As public corporations, the water authorities will experience a major impact from resource budgeting. Their borrowing used to count as public spending. From this year, their surplus and capital expenditure will count as public spending. The authorities have always produced accruals-based accounts. I will be happy to develop that subject and its implications later.

We await the report of the committee's water inquiry. As the committee knows, we are consulting on our plans for the industry. We propose the creation of a single water authority for

Scotland as part of our proposals for an efficient, publicly owned industry that can thrive in a competitive environment. Consultation on our plans will continue until mid-June. I am grateful to the committee for the interest that it has shown in the subject. Your report will be a crucial contribution to that debate.

I will deal briefly with our other plans. Our spending on natural heritage shows major increases. We will provide money to allow Scottish Natural Heritage to place greater emphasis on nature conservation. It will have extra spending for two major new initiatives. SNH will be given assistance to improve opportunities for walkers to enjoy Scotland's wonderful countryside. Spending will be mainly on paths, rangers, information boards and promoting responsible behaviour by walkers. SNH's spending plans on access will encourage more people to visit the countryside and provide a useful long-term stimulus to the economy of rural Scotland. That will take on even greater importance as we try to recover from the effects of the foot-and-mouth outbreak.

We are moving from legislation on national parks to implementation. By 2002-03, we will have the first national park in Loch Lomond and the Trossachs, and we will be working on detailed plans for the park in the Cairngorms.

The Scottish Environment Protection Agency's work load continues to increase as it enforces existing law and gears up to new challenges such as the integrated pollution prevention and control directive, which will more effectively control the largest polluters. SEPA will also have a role in implementing the water framework directive, which will bring major improvements to Scotland's water environment.

We are talking about finance today, but we should remember that the value of the work that we do cannot always be judged by the amount that we spend in the environment budget. We are embedding policies on sustainable development and climate change across the work of the Executive. That will be achieved by altering and skewing the spending priorities of other departments to ensure that we achieve our objectives.

I draw the committee's attention to two further topics that are not covered in the environmental review. First, we have provided £16 million in local authority capital in 2002-03 and £50 million over three years to create a strategic waste fund. Scotland has a poor record on waste and our production of waste is still growing. More than 95 per cent of waste goes to landfill, which blights the environment of many communities. We must reduce the waste that we produce. We must reuse waste where possible and move up the league table in recycling. The money that we are

providing means that local authorities can kick-start the programme. That is not the glamorous end of the business, but it is vital if we are to make Scotland a better place to live in.

I know that the committee is taking a special interest in renewable energy; much is going on in that sector. We have set a target that 18 per cent of Scotland's electricity should be from renewable sources by 2010. Scottish projects will have access to the £55 million that the UK Government has allotted for research and development and demonstration schemes over the next three years. UK capital grants will also be available to support big development projects; we hope to have at least one of those in Scotland. We have allocated more money this year to energy efficiency, which is the most cost-effective way of reducing carbon emissions.

Our spending plans for the environment are ambitious. They reflect an ambitious environment agenda: water, waste, national parks and access are only a few examples of our work. I commend the plans to the committee. I shall be very happy to take questions.

The Convener: I advise the minister that not only have we read the Scottish Parliament information centre briefing on the new budgeting system, but I attended a seminar on it, with Murray Tosh and others, so be prepared. On that basis, I will go straight to Murray Tosh.

Mr Tosh: I should add that neither of us understood it, so the minister is quite safe this morning.

The minister's insouciance in his early remarks was much appreciated. He is the fourth environment minister that the committee has seen in less than two years. I hope that we might be able to hang on to this one for a wee bit longer.

Ross Finnie: I am grateful for the vote of confidence, from whatever source.

Mr Tosh: I am just thinking of some of the alternatives.

The obvious question for us to start with is about the impact that events have had since the budget document was drawn up. The major foot-and-mouth outbreak has had significant impacts on expenditure across several headings in local and central Government. Will you give us a quick sketch of the impact that the recent emergency might have on your expenditure priorities? What changes are we likely to see? Is there likely to be collateral damage elsewhere, under whatever heading, because money has had to be found in the first few months of this financial year?

Ross Finnie: I hope that we will not suffer too badly. Clearly the Executive, as well as the outbreak, has put pressures on Scottish Natural

Heritage. We have worked in close collaboration with SNH, for example in drawing up the access code and developing the advertising campaigns that are associated with it.

As I indicated in my opening remarks, much of the work that is contemplated in that area—never mind the access provisions within the legislation—is aimed at opening up and widening access. I suppose that we will have to be aware that we have probably put some pressure on SNH, but I would not have thought that that would give rise to particularly huge pressures. We have been very judicious in the co-operative approach that we have taken. However, in the round, there might be some pressures. We are trying to consider the outcome of foot-and-mouth on a Scottish Executive basis. We must look across the whole Scottish budget. It is a special situation, which has given rise to special problems. It would be unfortunate if we were to put individual budget areas under particular pressures as a result of that.

10:45

Mr Tosh: I was suggesting that the issue was a cross-cutting one. I am speaking to you in your role as the Minister for Environment and Rural Development and as a member of the Executive. Many of the implications of the outbreak could be felt in the local authority sector. Can you advise us what disruption there might be and whether there will be UK decisions on additional resources that are likely to have consequential implications for Scotland? I know that that is a matter of considerable concern. About three weeks ago, I heard that Dumfries and Galloway Council had lashed out £5.5 million that it simply had not budgeted for—the total is bound to be more than that. There is concern about the money that is fed into the system; we do not know where it is coming from or what side effects it will have.

Ross Finnie: Let me reassure you on our approach to the aftermath of foot-and-mouth. I chair a ministerial sub-committee, which involves several other ministers, particularly those with responsibilities for enterprise and lifelong learning and for finance, as well as a raft of officials with experience in the departmental areas that are most likely to be affected. The current inputs are the special plans lodged by Dumfries and Galloway Council. Our economist is carrying out an impact study and has already produced some work. The difficulty is in getting a handle on the real issues that affect people. Often in such crises, we read stories in the newspaper that prove to be hopelessly inaccurate.

The job that has been delegated to the ministerial committee is first to examine critically the real impact of foot-and-mouth and secondly to

address the issue in an integrated way. We do not want to consider it just from the perspective of tourism, forgetting the other things that are attached to that, or to consider it just in terms of agriculture, forgetting the impact on the inputs and outputs. Similarly, we are not considering haulage and other industries separately. We are trying to take an integrated approach.

We also have to liaise with Westminster. Many issues are at a UK level and might rest on gaining access to Treasury resources. The ministerial sub-committee is working together; our approach to finding the resources and approaching the Treasury, if necessary to gain access to the reserve, is co-ordinated. We have not yet completed that work and it would be misleading if I gave specific figures. I assure the committee that the issue is being addressed comprehensively by the sub-committee, which includes the Minister for Finance and Local Government. That is the right approach.

Mr Tosh: You touched on all sorts of headings. It is important for us to understand what the Executive is trying to achieve. If I am oversimplifying or getting things wrong, I am sure that the minister will tell me so. Is the Executive trying to protect its existing budget headings and services, arguing that the costs are additional and must be met by the UK, with a proportionate allocation in Scotland? Will there be disruptions in the Scottish Executive budget whatever happens?

Ross Finnie: We are certainly trying to minimise the disruptions to the Scottish Executive budget.

Mr Tosh: I think that you misunderstood me. I am not suggesting that you are saying that the matter is unimportant. However, whatever resources have to be allocated, are you making the case that they should be UK-referenced and additional, rather than taken from your budget?

Ross Finnie: No. We are considering both approaches. The wheels have to be oiled internally and that is how we are approaching the issue. Clearly, some issues cut across the whole of the UK and, if we can put together a case and make submissions to the Treasury, we will endeavour to do so.

We must recognise that resources are finite, however. We cannot simply pay individuals the length and breadth of Scotland individual sums of money. As the problem for all the industries involved is market collapse, we must formulate strategies that can urgently stimulate markets. However, if there are any UK-wide implications, we will certainly attempt to seek additional resources.

Mr Tosh: The key word that you used was "urgently". I have a most unfair follow-up question—I appreciate that its subject is not within

your remit. We are all a bit worried that the election will cause people to take their eye off the ball. Decisions must be made, and money and ways must be found to sustain markets. Is there any way that the Scottish Executive can indicate to the various concerned sectors the time frame for such decisions and when the money might begin to flow?

Ross Finnie: I assure the committee that the general election for another place will affect neither me nor the ministerial committee. We are the Scottish Executive; we have obligations towards the Scottish Parliament to fulfil. The committee will continue to meet and we will continue to recognise the need to move as swiftly as possible.

The Convener: I have a brief question that relates to Murray Tosh's point about the impact study. Will the study form the basis for any case for additional resources?

Ross Finnie: Obviously it will. Our initial research helped us to get a better handle on what was happening across Scotland and we have now commissioned some professional work, directed by Scottish Executive economists, to try to get an even better understanding of the issues. I am not going to teach grandmother to suck eggs; if we have a more factual and reasoned case, we will be more able to articulate it both internally and in any submission to the Treasury in a way that stands up to rigorous examination.

The Convener: Do you know when that report might be delivered?

Ross Finnie: I think that it will be delivered some time in mid-June.

Bristow Muldoon (Livingston) (Lab): Once the Executive has concluded its study, how do you intend to draw its findings to the attention of Parliament?

Ross Finnie: Because of the curious situation in relation to announcements and elections, either the Minister for Finance and Local Government or I will have to make public the date when the report becomes available. We will also make the report publicly available by placing it in the Scottish Parliament information centre and the other usual places.

Mr Tosh: In the published budget, how has the Executive gone about setting its targets and to what extent is it using cost-benefit analysis? For example, we have heard that 89 per cent of the population has to be connected to secondary sewage treatment. Has that goal been selected to meet European deadlines, or was it chosen by the department through some internal qualitative decision that was based on an analysis of costs and the likely benefits to be gained from

connecting 89 per cent of the population instead of 90 or 91 per cent?

Ross Finnie: Mike Neilson will correct me if I am wrong, but I think that we work backwards from the fact that, in some areas, we are in breach of bathing water directives and must substantially increase the number of people connected to secondary sewage treatment to avoid infraction proceedings.

Mike Neilson: That is absolutely right. What we do is a combination of avoiding infractions, meeting forward deadlines and, in some areas, taking action to meet the requirements of SEPA's environmental assessment.

Ross Finnie: There is a two-way street. We have to consider what we have to do to meet European environmental standards and what we can realistically do to achieve that. Environmental benefits will flow from that to individuals. You are right, Mr Tosh—when we take advice from the water authorities, the question of value for money is imperative.

Mr Tosh: I was not questioning the principle behind what is being done. What I am trying to get at is where we stop. What is the ultimate target? Are we approaching a specific figure? Is there an equation that says that the marginal cost of drawing in an extra 1 per cent or an extra 2 per cent will be X, at which point it might be better to spend the money on hospitals or the roads infrastructure? Are we in control of such judgments or are we simply having to meet percentages because they have been laid down for us?

Ross Finnie: I do not think that this is a question of meeting percentages. At the moment, we are talking about the effect of effluent discharge. Clear obligations are placed on us by the European standard. We are in no way attempting to gold-plate that; we are simply saying that it is incumbent on us to meet that standard. In our attempts to meet that standard, there are minimum levels—well, actually, they are very high levels—that have to be reached.

We find the same problem with water quality. In my opening remarks, I suggested that many Scots would find it quite remarkable that, with the natural abundance of what we believe to be good clean water dropping down on us, we are delivering poorer water quality than many parts of England and Wales are. I do not mean that to be pejorative about England and Wales, but most people's perception is that, in England and Wales, water has to be recycled, whereas, in Scotland, the water is of better quality. That is not the case. Without—again—gold-plating, we are seeking to establish a minimum standard at the European level of good-quality water that is cost-efficient.

Des McNulty (Clydebank and Milngavie)

(Lab): A problem from SEPA's point of view—we heard this in relation to our water inquiry—was what I would regard as an inadequate level of prosecutions for effluent discharges. I presume that that is a function of pressure on the Procurator Fiscal Service or of inadequate advice and support in making progress in those cases. Given that prosecutions are an important mechanism in reaching environment targets, I wonder how that kind of cross-cutting issue is dealt with in the budget.

Ross Finnie: We have to be a little careful about using the word "cross-cutting" when we are dealing with the Lord Advocate. I do not think that the Lord Advocate would regard himself as susceptible to cross-cutting. The independence of the Lord Advocate has to be respected.

There is always a difficulty in procurators fiscal and advocates depute recognising the importance of issues to the community. I know from previous experience in local government that some planning cases ought to have been prosecuted to indicate to the wider public the importance of the issue; however, that often did not register on the local procurator fiscal's Richter scale.

The problem is difficult, but I have no doubt that SEPA is more than able to handle it. I do not think that it is a problem in which a minister should interfere. As the regulatory authority, SEPA has at least a legitimate right to have discussions with procurators fiscal on policy. However, I think that it would be entirely wrong for a minister to interfere in that process.

Des McNulty: I am interested, because you are setting the targets and SEPA has to work with those targets. Is there a breakdown in another part of the process over which neither of you has control?

Ross Finnie: I would have thought that, as the regulator, SEPA had a legitimate right to have conversations with relevant procurators fiscal to discuss policy matters rather than individual cases. We may take that up with SEPA representatives when we speak to them. They would be the relevant people to have that conversation with.

11:00

Bruce Crawford: My question is about water, but it is related to the budget. You have already told us that expenditure on water and water-related areas makes up about 40 per cent of your budget. Whether you use the new process of resource accounting or the former way of budgeting with capital expenditure, I guess that the movement at the margins is negligible. Believe it or not, I am trying to help you to get more money

into your budget. It has always struck me as strange that water is included in public expenditure as part of the overall total, but that there is no input by way of subsidy to the water industry. The industry is therefore self-reliant and has to raise its own charges. In those circumstances, why on earth does it score against public expenditure when, in reality, there is no input from the taxpayer? Removing that as a public expenditure line from your budget would give you a sight more room to increase spending on other areas of the environment. Why is the budget thus set out?

Ross Finnie: There may not effectively be a subsidy, but the industry has direct and not quite unfettered access to a borrowing source that is not available to the private sector. You have trodden into a more philosophical point about who should be the provider of essential capital renewal and equipment. The sources that are currently used are public ones—that is an essential feature of being a public body. I am not sure what would happen if we were simply to transfer that money. The money is still being provided. The curious thing about any public accounting system is that, in reality, whether one is borrowing money or using it on a revenue basis, that money is coming through the same public sector borrowing requirement and so is still effectively public money.

Bruce Crawford: The difference in this case is that it is not the taxpayer who is supporting that borrowing.

Ross Finnie: It is.

Bruce Crawford: I thought that the borrowing consent was given to the water authorities, but that they borrowed the money in the normal way. We have heard quite a bit of evidence about the process whereby private finance initiative money is taken not from normal sources such as the Public Works Loan Board but from the banks. In those circumstances, if that money, which is applicable by revenue charge to the water industry, could be covered solely by the charges to the customer, and not by the taxpayer, is not there an argument for some of that area being removed from public sector borrowing? If not, why not?

Ross Finnie: The water industry is, in effect, borrowing from Scottish ministers. The vast bulk of its borrowing is from Scottish ministers.

Mike Neilson: All the long-term borrowing is from Scottish ministers, who are essentially borrowing on from the Treasury. The water authorities have a small bank overdraft facility to allow them to deal with short-term fluctuations in their needs, but that is the extent of their borrowing. They do not have any other form of market borrowing.

Bruce Crawford: What about PFI?

The Convener: In a sense, the money is not private money, because it counts against the Public Works Loan Board calculations and is therefore within the public sector. Is that right?

Ross Finnie: Bruce Crawford has tripped into a philosophical point. The fact of the matter is that, because of the way in which the system is structured, the money is borrowed through Scottish ministers and therefore counts as part of overall Treasury borrowing and for PSBR figures. To that extent, it scores against total public expenditure and borrowing.

The Convener: I think that we have pursued that far enough. Did Murray Tosh want to come in on that point?

Mr Tosh: I want to move things on. All that Bruce Crawford was doing was checking that this minister gave the same answer to that question as the last minister did. By and large, he has done so.

Ross Finnie: I am terribly glad, because I needed to check that.

Mr Tosh: We must try to understand the difference between PFI, which is private capital, and borrowing, which is backed by the Public Works Loan Board and therefore by ministers. As we established with Sam Galbraith, that is public sector money.

I want to push on to SEPA, because part of your budget calculation is that SEPA will increase its revenue to offset its costs through a series of charges and various economic instruments. In your introductory remarks, you referred to the IPPC directive and the water framework directive, both of which assume that there will be additional regulation and costs for the regulatory body, with additional fees, charges and licences to be levied. Could you indicate some of the additional economic instruments that might be introduced this year and in the foreseeable future, given that there is a three-year financial plan?

Ross Finnie: I would like to take a step back. Clearly, we must strike a balance. We have clear standing statutory obligations, and we will have to enact legislation on the water framework later in this parliamentary session. I am anxious that we do not lose sight of the need to set very high environmental targets, and that we recognise our statutory obligations at the European and domestic levels. I acknowledge that the obvious consequence of that is that SEPA, as the enforcement regulator, will be put in a position where it must make charges.

I am particularly anxious that as each obligation comes into play, there should be far better dialogue between the regulator and the people on whom the legislation will impact. In the past, there was a tendency to believe that all one had to do

was pass legislation and the rest would take care of itself, but that ended up with monumental disputes about why and on whom the charges were being imposed. We are obliged to have greater dialogue and inclusiveness, particularly with industrial and commercial users, so that we can explain to them the long-term benefits of the contribution that they can make to the environment, and the long-term savings and benefits that they might accrue.

I am interested by some of the examples in the oil and petrochemicals industries, which are—at a much higher level in their management structure—beginning to realise that there are long-term benefits in looking beyond tomorrow. Clearly, that is much easier for huge corporations to contemplate than it is for many of the small businesses in Scotland that might be similarly affected. That is my philosophical answer. I do not mean it to be wordy; I genuinely want to have that kind of engagement as each phase of legislation is introduced.

I have talked briefly to SEPA about the potential charges that it will levy. SEPA recognises that there must be better engagement, or we will end up with a collision between the desire for better environmental standards on the one hand, and resistance to that on the other. Better engagement would be my preferred approach.

Mr Tosh: A couple of weeks ago, I sat here and listened to a debate to which Rhona Brankin—our fifth environment minister—responded. I have a question about water abstraction charges and their potential impact on the whisky industry—an example of the clash to which the minister referred. SEPA, on the one hand, stresses reasonability, local cost and low bureaucracy. However, the whisky industry—on the other hand—is working up a great campaign about the huge potential costs and additional burdens of bureaucracy that it believes it will be forced to bear. It would be helpful if the minister could give us some indication of the truth. Where is the balance, and what will be his philosophy for charging? Will charging be used to achieve environmental objectives, or to cover SEPA's costs, in which case is there any flexibility about the scale of the bureaucracy that the minister will put in place to implement the water framework directive?

Ross Finnie: First and foremost, the purpose of charging is to meet environmental objectives. Secondly, a pragmatic and reasonable approach must be taken. The Executive's role is that of an interlocutor in what I hope will not end up as a monumental dispute between the Scottish whisky industry, SEPA and the Executive. We must say what is reasonable. The whisky industry argues that all distilleries in Scotland will in some way,

shape, size or form be subjected to abstraction charges, although SEPA says that only three or four distilleries might be affected. There is a huge gulf between the two arguments.

I reiterate that, if ministers have a role to play, it is to act as interlocutors to bring about a reasoned discussion. We need to be clear that we shall not damage water courses and so on by unnecessary abstraction. At the same time, we have an environmental objective to meet and the response from the regulator should be proportionate to meeting that objective.

Mr Tosh: You are not saying much about the matter. I cannot work it out from the documentation, but to an extent SEPA pays for itself through its charges. It is not clear to what extent it is supported by the Executive and to what extent it is supported by charges, but perhaps I did not read the document carefully enough. How certain is it that the assumed income levels will be met? What default mechanism exists if SEPA does not achieve its income levels? I presume that its costs are relatively fixed and that SEPA will depend on licence fees in a given year. How predictable and dependable is that system? How will SEPA cope if the income does not proceed in line with budget expectations?

Ross Finnie: I shall pass those detailed questions to Nikki Munro to answer.

Nikki Munro: In the current year—2001-02—SEPA will receive from the Executive grant in aid of £22.6 million. On top of that, £17.4 million will come from regulatory charging schemes. Our experience is that SEPA has been good in predicting its income levels. We have regular exchanges with SEPA, so we would know if problems were developing and we would, if necessary, programme them into future years. We know, both from experience and from what the new requirements demand of SEPA, that their rising line under the spending plans recognises all the extra burdens that are placed on it. Part of those extra burdens will be mitigated by the charging regime that is introduced.

Mr Tosh: Is it intended that the proportion of income that is covered by fees and licences will increase to meet a greater share of SEPA's costs in the long term? Is it envisaged that it will ultimately be an agency that, in whole or in respect of some principal activities, is borne entirely by fee income and charges?

Nikki Munro: I would distinguish between SEPA's detailed regulatory work—for which it will generally recover charges—and its many other activities. SEPA works upstream; it talks about environmental improvement and new directives and explains to industries how least painfully to meet the requirements on them. We would fund

such work through grant in aid.

Mr Tosh: I skipped over a couple of questions, but because of the time we might want to pursue them in writing.

The Convener: Yes. I invite Fiona McLeod to speak about renewables.

Fiona McLeod (West of Scotland) (SNP): It was interesting that the minister acknowledged in his remarks that the committee has decided to consider renewables as a specific part of his budget. However, he then explained that renewables do not appear in that budget. That is one of the committee's major worries. A target has been set of a 5 per cent increase in generating electricity through renewable sources, but there is no line in the budget to allow for that. Why did you set the target of 5 per cent and how do you intend to achieve it?

11:15

Ross Finnie: The complication was in the way in which the devolution settlement was set up. Energy was deemed to be a matter for the enterprise and lifelong learning department, but the Scottish renewables obligation has emerged as an environmental issue for Scotland, which has adequate energy production. It is easier for us to say that we are not trying to generate extra energy as an energy requirement if we are producing energy from a different source.

We are supplementing or displacing energy that we already have, therefore it is much easier for us genuinely to say that we are pursuing a renewable energy policy as an environmental issue, rather than as an energy issue. It is for that reason that the renewables element of the energy policy is now an environmental matter, which is my responsibility. However, because of the way in which the departments were set up, the budget lines relating to renewable energy were included in the enterprise and lifelong learning department's budget.

Fiona McLeod's next question concerned how we intend to pursue our objective. The Scottish renewables obligation will oblige all energy suppliers in Scotland to supply a specific proportion of their electricity from qualifying renewable sources of energy. The target that Fiona McLeod mentioned is an obligation that will be placed on the providers of electricity. In that way, through the Scottish renewables obligation, we hope to achieve the target.

Essentially, the regime has focused attention on cheaper forms of energy. Given that the changes are being paid for by the consumer, there is pressure on the industry not to add cost to the consumer. Therefore, the energy companies must

be driven to concentrate their efforts on the cheapest forms of renewable energy.

Fiona McLeod: You seem to be contradicting yourself, minister. You said that, given Scotland's great potential for renewable energy sources, renewable energy is an environmental issue for the Scottish Executive. However, you then said that, under the Scottish renewables obligation, it is the energy providers' obligation to meet your target. You have a budget to achieve your target, but you are putting the onus on the producers who, as you said, will choose the cheapest option and not necessarily that which is the most environmentally effective. Is not there a contradiction in that?

Ross Finnie: I do not think so. The first point is quite important, because a net importer of energy might have different objectives. Net exporters of energy can pursue vigorously the policy of attempting to displace traditional sources with renewable sources. They can be clear that the whole of that displacement should come from renewables—that is an important distinction.

The provisions in the Scottish renewables obligation also make it clear that the additional cost of supplying from renewables is to be passed on to the consumer. That is the way in which the Scottish renewables obligation is set up and that is how the trading in green certificates for renewable energy works; there is no conflict. It is important that the department that is being given the task of achieving environmental standards is pushing that forward in conjunction with the industry.

Fiona McLeod: Let us turn to more specific budget figures. Table 4.10 details the Scottish renewables obligation line in the enterprise budget, not the environment budget. Can you tell us where those figures came from and explain what they mean? It became obvious to the committee last week, through evidence that we heard, that that is not a line of Government expenditure.

Ross Finnie: John Brown confirms that that is the non-cash element. I declare an interest in that I am a fully paid-up member of the Institute of Chartered Accountants of Scotland, with whom I share the mystery of resource accounting and non-cash lines.

John Brown: It is not a cash provision. The reason why it is in the budget is that the quantum each year derives from decisions that were taken by ministers when the orders under the Scottish renewables obligation were made. In 1997, Mr Brian Wilson decided that the order that year should be of a particular size and type. As the projects under that order are built, they have a cost that flows through to consumers. It is the job of the energy regulator to quantify that cost. Each

year, the energy regulator tells us how much he expects will be paid out by electricity consumers for those renewables projects. As the payments are based on ministerial decisions, we have to put the estimated costs into the budget. We do not estimate the figures; they come to us from the energy regulator.

Fiona McLeod: The line I referred to is not in the environment division's budget, but in the enterprise budget. It looks as if the Executive is going to spend £13 million, which will rise to £19 million. In fact, it is the consumer who is spending that money, not the Executive.

John Brown: That is correct.

Fiona McLeod: I repeat: there is a line in the enterprise budget that says that the Executive is spending that money, but in fact the consumer is spending it.

John Brown: It is a non-cash provision.

Ross Finnie: There is one issue and it appears in two places. We have to look at some of the rules; it is an anomaly that expenditure must be set out in terms of the legislation that governs that expenditure. We are doing things exactly as they are set down in the rules. If Fiona McLeod looked at the way in which we are using resource accounting for the water industry, she would find that the legislation has not caught up with that process. The legislation that says that we must set out what we spend also requires us to show the borrowing. All that needs to be sorted out. The system is not sensible and I am not going to try to defend it on those grounds.

The Convener: I have a question that links directly to that point. Will we find other ministerial announcements in the budgets for which the minister is responsible? Are there other non-cash lines?

Ross Finnie: Not that I am aware of. The two examples that I have given are the two of which I am aware and in which the rules for disclosure have not caught up with our practice in dealing with the issue.

Fiona McLeod: I was going to finish by asking if there was a similar non-cash line in the UK budget. However, if the customer is spending the money, rather than the Government, the question does not matter.

We have established that the minister's—or anyone else's—budget appears to have no money to put into renewable energy promotion and research and development in Scotland. The minister talked about the £55 million that is available in the UK over three years for research and development. The minister also talked about a UK capital grants project, which we could bid for and he said that he hoped to get at least one

project for Scotland. How much is in the UK capital grants budget? If the minister is looking at only one project for Scotland, what is the value of that project? It seems that Scotland will get money for renewable resources only from the UK figure of £55 million for R and D, so how much does the minister expect to get from that figure?

Ross Finnie: Before we go into the specifics of who spends what, there are two things that Fiona McLeod should be careful about. She said, rightly, that consumers will pay for renewables projects, but she must remember that that happens because there is an absolute obligation on the electricity companies. They cannot get out of that obligation, because they are statutorily required to purchase renewable energy on a fixed percentage scale. Although the consumer is paying, people get the impression that the Government does not have control over driving the industry towards reaching renewable targets.

Fiona McLeod: That is what I am trying to get at. The Government is driving the industry to its targets, but is not providing anything to renewables research and development to achieve those targets. That will land entirely on the purse of the consumer.

Ross Finnie: Indeed, but the Scottish target was set explicitly to ensure that the Scottish consumer would not be disadvantaged as a result of the ultimate price that would be paid by the Scottish consumer, compared to the price that would be paid by a consumer anywhere else in the United Kingdom. Clearly, we could have been even more ambitious and set that target at 3 per cent, 4 per cent or 5 per cent more. There was discussion at the time to the effect that Scotland should be setting the pace. Fiona McLeod's point was the very point that was taken into consideration when the decision was made, because to increase that percentage out of line would have created an even heavier burden.

The sum of £10 million was spent on Scottish projects in the period 1989-99. Renewables research and development is a reserved matter, which is another complication, and those projects have direct access to the money that is available.

Fiona McLeod: Can I take you forward—rather than going back into history—from the £55 million that was spent in the United Kingdom over three years? The sum of £10 million over 10 years seems pitiful.

Ross Finnie: I am unable to say what the percentage would be.

Fiona McLeod: Is there a bidding process?

John Brown: Yes, it is a United Kingdom fund. As the minister said, funding for renewables is a reserved matter for which the Department of Trade

and Industry has the budget. We have secured an allocation of the capital grant money, which is available for offshore wind projects and other large projects. We hope to acquire one of those big projects for Scotland. If we do—by “we”, I mean private sector companies—we could obtain more than our pro rata share of the available budget. That will depend on the size of the project and how expensive it is.

My team actively encourages Scottish projects to bid for some of the DTI pot for research and development funding. We have already secured about £10 million of that money in the past decade. We hope that Scotland will continue to have a good share of that money, but it is a DTI budget.

The Convener: There are several questions to be asked, but we must bear in mind the time. I have a couple of points to follow up, but I shall allow Robin Harper to ask a question and follow that with a supplementary.

Robin Harper: To clarify matters, are you saying that it is the responsibility of the projects and the universities to bid for the money? Do you merely encourage them to bid for it, rather than bid for it on their behalf?

John Brown: I confirm that that is the case. Companies, universities and researchers bid for the money. A company in Inverness with which members will be familiar has been successful in obtaining DTI research and development funding on the wave energy programme; that is just one example.

Mr Tosh: Given what John Brown said, I have a supplementary question. He talked about our receiving more than our pro rata share of the available budget. We discussed that last week and are interested in that concept. Is that a Barnett pro rata share or is it based on the amount of power that is generated? What is Scotland's pro rata share?

Ross Finnie: We are not constrained by the Barnett formula in relation to that process.

Mr Tosh: John Brown talked about us getting more than our pro rata share. What is our pro rata share?

Ross Finnie: Sorry; I misunderstood the question.

John Brown: Perhaps I can illustrate what I mean. There is £39 million available from the DTI for offshore wind projects in the UK over the next three years. We are currently talking to a developer who wants to build a wind farm in the Solway firth. If that project bid is successful, we could get more than 10 per cent of £39 million from the DTI because the project is large and expensive. I must emphasise that I am not saying

that that will happen, but we might get more than we would under another share arrangement.

11:30

Ross Finnie: I will clarify that point. Members asked whether that was proportionate to our energy output.

The Convener: We are renewables-rich in Scotland and we should be punching well above our weight in relation to the resources that are available.

Ross Finnie: We do not have a figure to hand, but we will respond to the committee on that point.

Mr Tosh: We do not want you to fall into the trap of thinking that the issue should be related to the Barnett formula.

Ross Finnie: We will not—we will be able to come back to the committee with a more specific answer.

The Convener: Two members want to ask further questions. If it is likely that the answers will be long, I suggest that we follow them up in writing, as we will do in relation to a couple of other matters that we have not had time to address. We are rather short of time because the Minister for Transport is coming to give evidence in a few minutes.

Robin Harper: Has the Executive considered asking that the money be shared out on the basis of renewable potential for development?

Bruce Crawford: Mr Brown talked about a 10 per cent share. The Crown Estates announced 19 sites, one of which was in Scotland. Given the scale of the expenditure that you are talking about, how could one out of the 19 make up 10 per cent of the budget?

The Convener: Neither of those questions would produce quick answers so we will pursue the issues in writing. We have had a fairly in-depth discussion of some of the issues. I thank the minister and his officials for attending. The clerks will contact you in relation to the subjects that we did not manage to cover and the two questions that were asked at the end of the session.

11:32

Meeting adjourned.

11:37

On resuming—

The Convener: I begin with a warm welcome to Sarah Boyack, the Minister for Transport and Planning, and her team.

Before you arrived, minister, we had a session

with Ross Finnie. As you know, we are scrutinising the budget process. We have chosen to examine it at a strategic level in the first instance, but we are also specifically considering Highland and Islands Airports Ltd. You have the opportunity to make a short opening statement.

The Minister for Transport and Planning (Sarah Boyack): I do not want to take up a lot of the committee's time. I am glad that the committee has chosen to consider HIAL and its budget this year. I hope that, in examining the budget, the committee will see the kind of choices that we have to make in supporting transport provision in the Highlands and Islands.

We operate 10 airports through HIAL. Our funding enables the continuation of safe travel at all its airports and of scheduled services for local communities. We see HIAL as part of the Executive's overall objective of maintaining population and promoting economic growth in the Highlands and Islands.

Over the next three years, we are providing funding at record levels to HIAL to support the airport infrastructure for air services. In 2002-03, our support will total £21.5 million. That is more than HIAL has ever received and it is something like £14 million more than just a few years ago. That money will significantly increase expenditure, primarily to support infrastructure investment to keep the airports open and to try to improve them.

We give substantial support to lifeline air links—I am sure that we will talk about our decisions on those. In particular, we have a substantial commitment to three lifeline routes that would not be supported commercially. Without the present level of support, charges for airports would be much higher. That would threaten the continued provision of most Highlands and Islands air services.

In the past couple of years, the board of HIAL has undergone major changes. It has a new chair—Sandy Matheson—to whom the committee spoke today, and new people have been drafted on to it. The board is more diverse, stronger and pulls in useful expertise to the Highlands and Islands, particularly in finance. That is partly a result of our philosophy of trying to support the expansion of the services that HIAL offers and of promoting links between our support for air services and our other objectives in the Highlands and Islands.

I will not take up any more time. Those are the key points. The new investment and a reshaped board are critical for HIAL's future.

The Convener: Thank you. The first couple of questions concern the general budget. Then we will go into the issues with regard to HIAL.

Des McNulty: I will ask about the balance between expenditure on road improvements and expenditure on public transport. The budget shows a fairly substantial increase in expenditure on capital construction and road improvements. On the face of it, it appears that public transport might have to wait some time before receiving substantial increases. How that works out depends on how you get on with the integrated transport fund and the projects that it funds. Perhaps the minister could give us a flavour of how she expects that to be developed.

Sarah Boyack: There are funds such as the public transport fund, which will increase from £90 million for the past three years to £150 million for the next years. The integrated transport fund, which you mentioned, is also relevant. We consider that an Executive-directed resource to provide a major boost to public transport.

We also support bus services through the bus fuel duty rebate. We have given bus companies extra support in the past month to allow them to receive the benefits of the Chancellor of the Exchequer's cuts in fuel duty. The ScotRail franchise and an increase in the rural transport fund are also relevant. There are increases in public transport expenditure and for Caledonian MacBrayne and HIAL too.

Across the piece, significant increases are occurring where we think that targeted investment is needed. The public transport fund, which is local authority led, and the integrated transport fund, which is Executive led, are probably the two headline indications of our support for new public transport improvements.

Des McNulty: The amount for roads has increased fairly substantially. The Executive's public commitment is to increases in funding for public transport. Are you satisfied that the way in which the additional money is to be spent on public transport is clear? Do you feel comfortable with the balance between that money and the increases that you are providing for roads?

Sarah Boyack: On roads, all I would add is that we have an overarching objective to take a more integrated approach to transport. Investment in roads benefits bus users. Through the public transport fund and our multimodal studies on the M8 and M80, I am keen to consider how we can improve access for public transport users to our trunk roads and motorway network.

The spending plans do not conflict. The question is more how we obtain the benefits of the synergies of new roads investment for bus access. For example, we spoke to Glasgow City Council and South Lanarkshire Council about having strategic access points with park and ride to feed into the M74 development. It is important that we

consider links across types of investment. It is good news all round that we are increasing roads investment and public transport investment.

Des McNulty: Given that some projects have not been worked up for roads investment, the single allocation to local authorities and, arguably, the integrated transport fund, how will variance be handled at the end of the year? For example, if money that is allocated to a project is not used in one year, what happens to it? Is it diverted elsewhere in your budget?

Sarah Boyack: Trying to manage projects on time and to be able to carry money forward into the next year is a process. It is something that we prioritise across the transport budget. We also have discussions with the finance department about the process.

Des McNulty: Is there any way in which the Transport and the Environment Committee or the Parliament can monitor that process and be involved in the discussions?

Sarah Boyack: They can be involved retrospectively. When we publish the outturns for the previous year, they will be able to see what the transfers have been. It is difficult to do in-year, because we would not have made the judgments then.

11:45

Des McNulty: What progress has the Executive made in developing a definition and measurement of systematic and comparative value-for-money indicators to enable comparisons between the elements of the programmes? For example, how do you evaluate the funding requirements for Caledonian MacBrayne's ferry services or for new road infrastructure, such as the M74?

Sarah Boyack: I am told that we have not really progressed on that at the moment.

Bruce Crawford: There has been a fair bit of comment recently about the effect of the Barnett formula. Some commentators, particularly Professor David Begg, are concerned that spending on transport in Scotland is rising more slowly than it is in England. Some of the figures certainly seem to suggest that that is true. Between 2000-01 and 2003-04, expenditure in Scotland will rise by 16.1 per cent; expenditure in England will rise by 23 per cent. That represents a gap of about £180 million.

What is your understanding of the comparison between the increasing resources that are available to you and those that are available to the rest of the UK? Why is the difference happening?

Sarah Boyack: The main answer is that it is happening because of devolution. It is up to the

Executive to decide how to distribute our resources among health, education, justice, transport and economic development. I have discussed the differential transport spend between the Scottish Executive and the UK Government with David Begg more than once. We are not always comparing like with like. You must remember that UK rail expenditure comes through the Strategic Rail Authority, so it is quite a complicated business to unpick our transport budgets. For example, we spend money in Scotland on some things that do not exist in England, such as lifeline ferry and air services—we spend a significant amount of our resources on those projects. It is difficult to expect a direct comparison, because the Scottish priorities are different from those of the rest of the UK.

Bruce Crawford: We understand that, but the committee would like you to have more money in your budget. I do not know whether there is a process that would give us greater insight into some of the complications that exist in examining the differentials. If we had more detail, we might be able to help you to have more money in your budget. I could spend more time on this area, but I am conscious that time is limited. I would be grateful for more details specifically on the differential between what happens in the south and what happens in Scotland.

As far as the future is concerned, Mr Prescott has announced a 10-year transport plan through the Department of the Environment, Transport and the Regions. I know that there has been some press coverage of the potential for a 15-year transport plan in Scotland. I am concerned that we might lose out in the bidding process for resources, for example from the £7 billion rail development fund, if we are not in the queue and do not have our plans worked up. Other large metropolitan areas and English regions will be in the queue before us. Can you assure us that a plan will be developed for Scotland? What potential lifetime will it have and how will we ensure that we are in the bidding process for UK funds and can get what we need?

Sarah Boyack: We have regular discussions with the Strategic Rail Authority, which has a number of major funds. We are keen to ensure that we are involved in discussions about the criteria for disbursement of those funds. That is one major way in which we are part of the overall UK picture and ensure that the promoters of rail projects are able to make bids to the Strategic Rail Authority for support. To date, we have had a couple of important sets of investments. The Beaulieu station is being reopened and we have support from the SRA for the crossrail project in Edinburgh. We have had some successes from those funds and we would like more such successes in the future.

The key part of our transport investment is the year 3 spend, because that is when there will be a significant expenditure rise. The challenge for us, not only as we prepare the transport delivery plan but as we work up our projects and programmes over the coming three years, is to spend effectively in year 3 of our programme.

Bruce Crawford: It is good to see the extra investment in year 3, but that takes us forward only three years. In the south, there is a 10-year expenditure plan. Are we going to see a transport plan over a time scale similar to that which exists for other parts of the UK? The committee views that as important for the future.

Sarah Boyack: No, we will not take exactly the same approach as the rest of the UK. We should look beyond a 10-year horizon. We must look further forward than that for some of the major strategic investment that we need in Scotland. Our on-going airports study and the UK airports review, for example, take us 30 years hence. There is logic in looking at a longer time horizon in Scotland, so our approach will not be the same as that in the rest of the UK.

Bruce Crawford: When will you be able to make an announcement on that?

Sarah Boyack: We are looking at the autumn. We want to pull in the work on the CalMac franchising process, the rail franchising process for ScotRail and the airports. To be meaningful, the transport plan has to look across modes and not just at our current plans.

Mr Tosh: I am interested in the minister's remark that we will have a statement in the autumn. I had heard that she would be making a statement about a five-year plan. Whether the plan is for five years or for five plus for different areas of expenditure, I am interested in how it relates to the current budget round. What resource assumptions will be made in looking forward five or 10 years? Will you do some kind of weighted average of expenditure or will you build in projected increases? I am trying to get some idea of your forward thinking.

Sarah Boyack: Just as at the UK level, 10 years or 15 years goes beyond one or two elections. It is impossible to commit future Governments to expenditure, but we can be clear about our programme and financial commitments over the next three years and talk about what we see as the priorities beyond that.

The other key element of the process is the fact that we should not just examine public sector investment. One of the challenges for us is to try to attract private sector investment for some major transport projects. The transport delivery plan is the opportunity for us to have that discussion, not just within the Scottish Executive, but more

broadly, with stakeholders in key parts of transport infrastructure, to try to get them to look beyond a three-year time horizon as well.

The Convener: Bruce, do you have a question on ScotRail?

Bruce Crawford: Yes. Sorry, convener; I was mulling over some of the minister's answers. What are the implications for the future of the ScotRail franchise of its funding provisions post Hatfield, in comparison with the arrangements prior to April 2001? I was struck by the deal that was done with Railtrack and Virgin this week on price reductions. Is there scope to encourage ScotRail and Railtrack to come to a similar arrangement to encourage people back on to rail in Scotland?

Sarah Boyack: We had a useful meeting with the rail industry in the Scottish Executive offices at Victoria Quay a couple of months ago. One of the key issues we discussed was how to attract passengers back on to the railway network. That involves the train operating companies working together to develop packages and marketing. Great North Eastern Railway Ltd, Virgin and ScotRail have all come up with packages. We are keen for them to do more.

One of the key elements of the question was the position of the rail industry post Hatfield. Bruce Crawford will know that there are reports on the future of the rail industry after Hatfield that we will all have to read. In particular, we see the safety issues being taken forward by the SRA and the Health and Safety Executive. Some issues have to be addressed across the whole of the UK network.

The Convener: We now move to the more substantive subject, which is the areas we want to focus on as part of the budget process. I ask Maureen Macmillan to open with questions on HIAL.

Maureen Macmillan: The doubling of the subsidy to HIAL has happened against a backdrop of a recent decline in traffic levels. There are questions to do with value for money in relation to HIAL's performance. HIAL's accounts indicate declining performance, although it believes that that is beginning to change. With reference to specific airports, can you explain the general decline in business? What does the Executive believe can be done to improve cost-effectiveness in the delivery of lifeline air services and supporting infrastructure? There is an obvious relationship between passenger numbers and cost.

Sarah Boyack: You are right—the company's projections for passenger increase have not been fulfilled. There is an argument that those projections were slightly over-ambitious, but if we consider the different airports, there are particular reasons why passenger numbers have not met the

targets. The oil industry's changing demand is a key issue in relation to Sumburgh and Scatsta airports and has led to a significant drop in passengers on the network.

If we consider the trends at HIAL airports, we find that there are other issues. At Benbecula airport, changing patterns of military use have led to a decline in passengers. Members will be well aware of the current economic challenges on the Mull of Kintyre—specifically Campbeltown—which have led to a decline in passenger numbers. Inverness is an interesting airport because there have been major passenger increases and it has a buoyant local economy. The competition, especially on the London routes, between three operators—British Airways, easyJet and Air UK—led to a significant growth in passenger numbers, but the withdrawal of Air UK led to a reduction in passenger numbers. There is a story to tell for each airport.

Passenger numbers at Islay airport have been fairly stable over the period. Numbers at Kirkwall airport declined because of the decline in oil-related activity but there has been an increase there in the past year. There has been fluctuation at Stornoway airport because of variations in its use for military activity. Passenger numbers at Tiree airport have been relatively stable throughout the period. There was high growth in the mid-1990s at Wick airport because of the increase in oil-related activity, but services between Wick and Glasgow through Inverness have been withdrawn. The sharp decline at Wick has probably been due to a decline in tourist numbers. There are different reasons at each airport for the decline in passenger numbers, but there have been increases where new services have come on stream.

Could you repeat the other part of your question?

Maureen Macmillan: It was about how better cost-effectiveness in the lifeline air services and the supporting infrastructure can be delivered.

Sarah Boyack: I go back to my opening remarks about injecting some new people on to the board of HIAL. There has been much investment over the past few years. As we put in major infrastructure investment, we are keen that there should be the most effective utilisation of all the airports. I am pleased that HIAL is appointing a marketing director to consider how it can expand the use of services at the airports, whether we can attract more tourist trade and whether there are linkages between other services that could be promoted.

I am keen for the company to consider the major investment of the past few years and the projected investment and whether they could lead to more

services at the airports. A comparison between the quality of passenger facilities at Kirkwall and Stornoway, for example, and the facilities we will have at the new terminals provides an opportunity to market those airports and to try to attract new trade through the doors.

Maureen Macmillan: One of the possibilities that has been suggested is that all the region's air services are put out to competitive tender in the hope that that might offer a strategic and more cost-effective approach to meeting the needs of the Highlands and Islands. What are your feelings about that?

Sarah Boyack: It is an option. We have focused thus far on investing more in HIAL so that it can improve the infrastructure. That investment has managed to keep the airport in Wick open, for example. If we had not put investment into the runway, there would have been serious problems with the deterioration of the runway.

Our real focus has been keeping the airports open and finding out what we can do to improve the infrastructure. We have used public service obligations for what we regard as lifeline services, which would not exist without our financial support. I will give you the example of the Tiree, Barra and Campbeltown route. Those three airports have 20,000 passengers per year. Their infrastructure costs us something like £500,000 and supporting the flights for those services costs us in the region of £1 million. That gives the committee an insight into the fact that PSOs do not necessarily give us cheap services. They give us reliable and guaranteed services. Extending PSOs to the whole of the Highlands and Islands would have major financial implications.

I am keen that some of the good fares that are available, such as APEX fares, be promoted. Quite rightly, people focus on the expensive nature of the fares. I would not deny that they are expensive, but there is scope for more uptake of APEX and other cheap fares, particularly by tourists and leisure travellers.

PSOs are not an easy win, because we have to pay for the whole service. It is interesting to consider the Irish Government's approach. It has recently been reviewing its approach, which has historically been to use PSOs throughout Ireland. That is not an easy answer, because the Government has to guarantee resources for all the areas for which it is providing a PSO. Thus far, we have done that for the lifeline services that have no commercial interest. If we were to increase money for PSOs, we would have to question money elsewhere in the budget.

The Convener: It was put to us that if the PSO flights and the rest of the HIAL area were included in one big contract, that may attract different

players to the Highlands and Islands marketplace—perhaps some of the discount airlines that are aggressively picking up increased frequencies and new services. Accepting that PSOs must play a role, could we attract an entirely different player into the marketplace with a franchise? What would be the pros and cons of that?

12:00

Sarah Boyack: I mentioned that HIAL has a marketing officer to take a fresh look at such issues. We want to attract some of the low-cost players. That is partly about marketing the area and partly about having good facilities on the ground so that when people arrive at the airports, they can land. That is one of the reasons for the Kirkwall landing system—so that planes can actually get in. Those are basics. The facilities are critical to the strategy of attracting new aircraft to the area.

We would like more low-cost carriers to operate in the Highlands and Islands. I have had discussions with various airlines about that. They have different views about opening hours at different airports. That is one of the things that HIAL is examining. There are obviously costs involved in increasing opening hours—staff and air traffic control facilities must be provided. HIAL must make a judgment on that. I am keen for it to explore the issue and consider what the cost and benefits would be—and to make a judgment about where the opportunities are.

Our top priority has been infrastructure investment. That gives us a platform on which to build.

Maureen Macmillan: One of the ways to get infrastructure expenditure is the private finance initiative, as at Inverness, where there is a PFI-funded terminal. Is there a potential for using that method of funding in other airports in the Highlands and Islands? If so, what would be the appropriate model? How could wider economic and social goals be safeguarded?

Sarah Boyack: We are keen to consider all sorts of investment for different airports. One of the problems with PFI and public-private partnership approaches is that we need sufficient capital investment to make such projects worth while. The Inverness airport project was just under £10 million. Consider some of the other projects that there have been in the HIAL network. The costs are significant—they come in at £1 million or £1.5 million—but they are not at the £10 million level.

We are keen to consider the use of the public transport fund, as at Kirkwall. That led to a partnership approach that involved the local

authority, the Executive and HIAL. We are keen to consider different ways of funding, partnership approaches and private finance—if it is appropriate—but that is not an automatic solution for every airport, given the kind of investment that we are talking about.

Maureen Macmillan: Perhaps you could bundle the airports, so that they would not be funded individually.

Sarah Boyack: I am happy to pass that suggestion on to HIAL, as one of the proposals for it to consider.

Maureen Macmillan: Okay. Have you considered other models for airport control and regulation, to meet the region's social and economic objectives? One of the things HIAL mentioned this morning is the fact that the Civil Aviation Authority requires safety procedures at small airports that are far in excess of what it believes to be necessary and which are very expensive to maintain. Do you have any comments on that?

Sarah Boyack: If HIAL wants to take that issue up with the CAA, I am happy for that discussion to take place. I regard safety as of paramount importance. I know that some people hold the view that, given the scale of some of our airports in the HIAL area, we could have lower safety standards. I would not take the lead on that issue; that is for HIAL to discuss with the Civil Aviation Authority.

Some of our investment over the past couple of years has been designed to improve safety standards, and it has been justified. I know that maintaining those standards is expensive and that that money is spread around the Highlands and Islands, but I would not want to make any pronouncement on lowering safety standards. I accompanied the Civil Aviation Authority as it conducted one of its regular checks on the HIAL airports. It is interesting to see the amount of backup that is required for each flight to places such as Stornoway—for example alternative landing options in case the weather changes. I would not want the safety regime to be reduced. If HIAL has sensible suggestions to make to the Civil Aviation Authority, I am happy for it to do that.

Maureen Macmillan: The Highland region has lost its link to Heathrow, which we fought very hard to have restored. There are now question marks over the slots at Gatwick. How do you feel the loss of the slots at Heathrow has affected the region? How can we preserve the Gatwick slots?

Sarah Boyack: I shall not reveal the detail of discussions with UK ministers, but access to slots at London airports, especially Heathrow and Gatwick, is a constant feature of those discussions. I do not want to make a judgment on what has happened in the past. I have received

strong lobbying from economic development interests and local authority interests in the Highlands and Islands and I know how important the link is perceived to be to economic development in the region.

It is important for us to have a strategy that considers slots in terms of direct access to the hubs in the south of England. We are keen to establish more direct access to European airports to ensure that we have access to other hubs, such as Amsterdam, and that passengers from Scotland have choices. We are also keen for the overall UK aviation strategy for the next 30 years to include high-speed rail access to some of the English regional airports—for example Birmingham, Manchester and Newcastle—so that we can reduce some of the pressure for direct access to slots from throughout the UK.

In Scotland, we need an approach that looks at the broader picture, continues to press for slots at Heathrow, but does not ignore the other issues that could open up opportunities or take some of the pressure off those slots from the regional airports.

Des McNulty: People in the west of Scotland are obviously interested in securing a rail link to Glasgow airport. I suspect that there will be similar pressure in the east, regarding Edinburgh airport. Can both proposals be supported? How would you go about assessing the difference, financially, between those two proposals? What stage are we at in moving towards rail links, and what factors will influence your decisions?

Sarah Boyack: You raise several issues. I agree that we should consider rail links to Glasgow and Edinburgh and that we should take a strategic approach to that issue throughout Scotland. It has been on the agenda of my meetings with the British Airports Authority, at which we have discussed its experience at other UK airports, such as Manchester and Heathrow, what we can learn from that experience and what expertise the BAA can bring to the Scottish experience.

We have spoken briefly about the transport delivery plan. Rail links have to be one of the issues that are considered in that context. We are keen to consider the future opportunities in the context of Glasgow and Edinburgh airports, along with their costs and benefits, and the potential for establishing air links. I see this as a partnership involving the Executive, local authorities and transport companies. The issue is very much on our policy agenda at the moment.

Des McNulty: Will we receive information about how you intend to arrive at decisions on the matter?

Sarah Boyack: Absolutely. First, we must

conduct studies into the options and costs. Those studies are in progress.

Mr Tosh: Much of our questioning at the same stage of the budget process last year concerned the difficulty of tracking local authority transport expenditure through the Executive's budget information. The same points could be made this year. Except in the lines that appear early in the budget document, where the total Executive support for local authority expenditure is stated, it is difficult to follow in any detail where billions of pounds of public money are projected to go. Those lines concern transport substantially, although they range across all areas of local authority expenditure.

Much interest has been generated this year by the tendering exercise and the division of transport expenditure between local authorities and central Government. A similar point was made last week by a witness who could not find planning expenditure anywhere in the Executive's budget, although a lot of money goes into that.

In terms of a corporate Executive approach to transparency in relation to either her own responsibilities or her perceived responsibilities—I realise that local authority transport is not her responsibility, but that of the Minister for Finance and Local Government—does the minister feel that there is a case for presenting in a better way the aspects of Executive expenditure that come within its £5.5 billion of support for local authorities? Could the grant aided expenditure totals be included? Could public transport funds be shown in ways that would be meaningful to the public?

Sarah Boyack: We will consider that suggestion. It is up to local authorities to make their financial decisions. We must judge carefully how far we can go down the line you suggest.

We will consider the issue of transparency. I remember that you raised that point last year. Our public transport fund guidelines, in which I advise local authorities to put slightly more emphasis on project management, have just been circulated to local authorities. They are encouraged to manage their projects and feed information through to us. I am not sure whether we would want to do much more than is suggested in the paperwork that you have in front of you. A similar issue concerns our own expenditure through the year, which there may be scope for examining at the end of the year. David Reid may wish to comment.

David Reid: I have two points to make. First, as the minister said, the decisions on these large, unhypothecated sums rest substantially with local authorities. We produce historical records of spending in the different local authority services.

Secondly, this year there have been significant

changes to the way in which the Executive has settled local authority spending with local government. There are three-year settlements for current spending and capital spending, which contain assumptions about the levels of spending on transport.

Because there has been a bit of an upheaval this year, perhaps the eye has been taken off the ball on picking up the points that the committee made last year. We would consider that again if the committee were to include it in its report.

Sarah Boyack: I will add a brief postscript to that. In my discussions with the Convention of Scottish Local Authorities, it has said that it is keen on block allocations. COSLA is not keen on the transport spend being split off from other expenditure. Discussion is continuing on how it would like its resources to be represented.

Mr Tosh: That debate is worth having, but it is also worth including the Parliament in it. I remember the debate about capital expenditure. It went in favour of local authorities getting a block grant.

Involving the Parliament is a way for members to see how the Executive views the expenditure of the money. It is an opportunity for members to have insight into the Executive's thinking and to make comparisons between what local authorities consider to be their priorities and the priorities that are considered when the indicative grant aided expenditure estimates are made.

This is a case of transparency and of us all examining where the money goes and finding out what the local decisions are. I would not like the Parliament to be shut out of decisions on that.

12:15

Sarah Boyack: I certainly agree with the general principle of getting the balance right on local authorities having the right to decide how they display and manage their budgets. I am keen to get feedback from them about how they are spending the extra £70 million on local roads and bridges. They lobbied me very strongly for that money.

I am also keen to see what best practice is on the public transport fund allocation for walking and cycling, partly so that everyone gains from the experience of different local authorities. I am keen to follow that up with COSLA in our discussions.

The Convener: Does that therefore mean that we in turn will have a clear understanding of the trunk roads expenditure, which now goes straight from the Scottish Executive to the new contractors? How will we trace that through the budget process? Will it be in a separate line? Will it be transparent to members?

Sarah Boyack: It will be as it is now. Historically, that money would have been paid through the Scottish Executive and the work would have been carried out by local authorities. The work will now be carried out by the four operating companies. You will still see the budget lines.

The Convener: Will the reporting structure be the same?

Sarah Boyack: Yes. You will find it in table 8.2 in the AER.

The Convener: If there are no other questions to the minister, I thank her for a useful session. I appreciate her presence and that of the officials who were here to support her.

Petition

The Convener: We have a letter on petition PE96 from the Minister for Environment and Rural Development. It is in response to a letter from Alex Johnstone, the convener of the Rural Development Committee, and me.

The Rural Development Committee considered the minister's letter at its meeting yesterday. I understand from the clerks that that committee effectively agreed to continue consideration of the petition, partly so that it could be informed by the discussion at our committee today.

Members have both documents—the letter to the minister and his response. I seek your views on the matter.

Robin Harper: It is clear that the Executive has taken a decision. I am not sure whether there is anything we can do to change it. Perhaps we will have to act on the recommendation to set up an inquiry. I still feel that we should indicate that we are not happy with the decision and take some clear steps to remedy the situation that the Executive has created for us.

I object to the Executive's decision because the four reporters from the Rural Development Committee and this committee were clear that the advantages of an independent inquiry would be that it would be open, that it would in the end—we hoped—be acceptable to all parties, that it would advance the situation and that it could be done far more quickly than any inquiry the committees might initiate. I propose that, if the Executive is not prepared to budge on setting up an independent inquiry—and we should ask it budge—we set up a parliamentary inquiry. It should be a quality inquiry as far as possible.

We cannot be rushed. Given the situation, there is no point in our having a short and insufficient inquiry. We have to find the time—perhaps over a year. Taking a year for an inquiry would allow us to track what the Executive says it is doing. At some time in the next year, we could produce our recommendations.

Mr Tosh: Although I have received the same sort of briefing material as other members and the issue has been in the media in recent months, I cannot claim to know a huge amount about fish farming, aquaculture and all the related issues. I am somewhat uneasy about the sense that if you criticise the industry you are somehow against it and out to destroy thousands of jobs.

There is a sense that the Executive does not want to rock any boats—if that is not a mixed metaphor in the context of the debate. The committee should not give up on the issue. We

can intellectually make a distinction between appreciating the significance of an industry and wanting it to operate within good environmental standards. That is central to everything else we are doing and it is appropriate for us to go on.

In principle, it is disappointing that the Executive should have dismissed a request from two committees to proceed with an investigation. The Executive has the resources to hold an inquiry. If we decide, or the two committees together decide, to investigate the matter, it is almost as if we are accepting that we do not have the expertise or resources in-house to do a job as well as we thought the Executive could have done it.

It would be a mistake for us not to proceed. I say that mindful of the committee's forward work programme. Perhaps we cannot hold an inquiry in the next year but, when we have looked at our other priorities and the commitments that we have given, it may be that we can hold it in the life of this Parliament. The work that we have done in other areas should give everyone confidence that the Transport and the Environment Committee will do this to the best of its ability and impartiality.

What comes out of an inquiry—whether we do all or part of it—will be a good quality, balanced and intelligent report that should chart some way forward. If we find things wrong with the way the industry operates, we will make appropriate recommendations. If we find that some of the stronger criticisms that are made of the industry are inappropriate, we shall say that, too.

Maureen Macmillan: It is important that we move quickly to sort out the industry. My fear is that a big, lengthy inquiry would put the issue off. It has been on the go since long before the Scottish Parliament was set up. I have been aware of the issues around fish farming and aquaculture for a long time and I have spent a lot of time with the salmon farmers and the shellfish farmers since being elected. I was also the European Committee's reporter when it looked into infectious salmon anaemia. Although my report concentrated on the effects of the disease, I spent a lot of time talking to people about environmental issues. Research into all the issues that have been raised is under way. I have spoken to the scientists who are researching impacts, including those of chemicals and detritus on the sea bed.

In its letter, the Executive has given us a list of the initiatives that it is progressing. I am not sure what more we want to know. However, it did not say what it is doing about sea lice. That is one of the big concerns for the fresh water fishers. There is a perception that sea lice that hang around the salmon cages fatally attack the young fish as they leave the rivers. The Executive is undertaking research into the impact of sea lice and how they can be controlled.

It is not as if nothing is happening. People are aware of the problems and want to balance the needs of the fish farming industry with the other legitimate concerns. I wonder whether we need an inquiry to tell us all that, because that is all known anyway. A strategic approach to the agriculture industry needs to be taken, as has been suggested. The industry has grown up in an ad hoc way and needs some regulation.

Fiona McLeod: I will carry on from where Maureen Macmillan left off. It is true that some strategic direction is needed. The annexe that the Executive gave us shows loads going on. That is why an inquiry is important: it sets a remit, a focus and a timetable. I am slightly minded to support Robin Harper's suggestion that we take an overview of all the enormous amounts of research and ensure that it ties into a focused answer to the industry's problems. As everyone has said, the issue has gone on for nearly a decade and it cannot continue for another decade before someone considers it.

I will echo one of Murray Tosh's comments. It will be sad if a lack of committee resources prevents us from considering an issue about which we know and on which we have been petitioned.

Has the petitioner been given a copy of the Executive's reply to us? Have we received a response from the petitioner on that?

The Convener: Does any other member wish to speak? Robin Harper has indicated that he would like to speak again, but I would rather every member had a chance to speak before I allow members to speak for a second time.

Des McNulty: Like other members, I think that the outcome from the ministers is not particularly good. The issue is whether an appropriate balance can be found between environmental considerations and the legitimate requirements of the industry. When I read the list of initiatives that are under way, I found that the body that is charged with that fundamental element is Scottish Natural Heritage. Other agencies are being brought in—particularly local authorities, which are to be given the planning responsibility—but they will generally tip the balance more to the industry's side rather than the environment's side.

Is the balance correct? I would like far more prominence to be given to the Scottish Environment Protection Agency's role in testing and monitoring the environmental impact of this activity. We should make it clear to the minister that we are disappointed that an inquiry will not be held and highlight a set of questions about whether the initiatives that are in place address the issues that have been raised. Perhaps we could stress environmental protection and the correct organisations to develop that matter.

Bruce Crawford: I am concerned that, if we do not do something, the issue will be allowed to drift. I know that we have much continuing work and that many people are examining ways of considering different aspects, but someone needs to pull the issues together. As Maureen Macmillan said, some strategic direction is needed. Otherwise, concern that there are problems will continue and the environmentalists and the fish farming industry will be at each other's throats. They deserve a process, as well as everybody else.

Our problem is work load. It would be easy to say that we are so busy that we cannot take on another task, but I am not sure whether that would serve the industry's needs in the best way. It might take us some time to get there, but it is inevitable that a process will be required. If ministers will not initiate an inquiry, the Rural Development Committee or this committee will have to consider seriously the prospects for an inquiry that I hope would be short.

John Farquhar Munro: I was just as disappointed as everyone else when I heard of the minister's decision not to support the plea from the Transport and the Environment Committee and the Rural Development Committee to hold an inquiry. Members will have noticed that over the past three months, since it was suggested that there should be an independent inquiry, the situation seemed to damp down. We did not get comments from fish farms or the shellfish farmers; they seemed satisfied and were prepared to be patient and await the result of the inquiry. However, since the minister took the decision not to hold an inquiry, I have had several representations from the people who objected and had called for the inquiry previously.

12:30

It is significant that the fish farming industry was prepared to accept quite willingly that an inquiry was in its best interests. It was commendable of the industry to take that position. The inquiry would have cleared the air and clarified the position. The industry was quite confident that any inquiry would give it a clean bill of health. We do not know whether that would have been the case, but that is what the industry was suggesting. It would be remiss of us to sit back and say that the decision has been made.

As Maureen Macmillan said, several small investigations into the activities of the sea cage fish farming sector are under way, but they are not co-ordinated: they are piecemeal and do not have the sort of clout that an independent inquiry would have. An inquiry would allow us to take a holistic approach to all the issues.

I am not sure whether we should enlist the support of the Rural Development Committee and try to come to a cohesive conclusion on how to progress. I am sure that over the next few months we will hear a lot more about the lack of movement and progress on the issue.

The Convener: We have all expressed our disappointment that the minister did not see fit to take up our conclusion that there should be an independent inquiry. We have been offered a list of other work that is going on and, as members have said, there are some good things in there, such as the review of the aquaculture regulation scheme. I am sure that other things listed in the annexe to the letter will be constructive, but members are expressing doubt about co-ordination between the different approaches and the need for taking a strategic overview, particularly in relation to the petitioner's initial comments.

We need to think carefully about how to respond. I am in favour of asking the minister to come to the committee and tell us how all the initiatives tie together. In other words, before we commit ourselves to an investigation, perhaps we should ask the minister to justify more fully the reasoning that an inquiry would not be useful. If the Executive can justify its approach as set out in its letter, we might reconsider the matter at that point.

Many members have said that we need to track the progress of the Executive's work. That is undoubtedly the case and we should consider how we could do that. That is separate from whether we carry out an investigation. We still need to track whatever action the Executive is taking and measure the progress of all the different initiatives that it is about to begin or has already set in train.

We should not make any hasty judgments; we need to consider whether the Executive can justify its decision to the committee and tie together the initiatives in a package that satisfies us. That would have to be done at an early future meeting of the committee and it might help to target any investigation that we choose to take up. Any inquiry will be onerous in terms of work load and content—the science involved would be highly technical. We need to be aware of that from the outset.

We have heard what members have said. We should let the minister justify, or otherwise, the conclusion reached by the ministerial team. We can exclude certain aspects and concentrate on the specific areas that we consider the Executive not to be addressing. If that cannot be done, so be it; we must carry out an investigation and work out the logistics of the matter.

I understand that members are not happy, but

we must consider how the Executive's conclusions tie into a package. If we do not agree with it, we will take the initiative on board. The Rural Development Committee wants to know our conclusions and I want to know its conclusions. It had a fairly lengthy discussion yesterday but reached no fixed decision. My preferred way forward is for the minister to package up the matter to meet the petitioner's needs. If that does not happen, we must consider the aspects that have not been dealt with in a targeted manner. If we cannot do that, we shall return to our original conclusion to carry out an investigation. However, I wish to pursue some issues in the letter in more detail before carrying out an inquiry.

Robin Harper: There has been an unconscionable delay in the reply to our original request. Why it took it so long to say no is inexplicable. The Executive must explain that.

We cannot allow the process to drift and for us to say that the next step is to speak to the minister, but then for him to tell us that he will speak to us in six or seven weeks' time. He must speak to us within the next two weeks, either at our next meeting or the one after that. There has already been an alarming drift. We must call the minister to account as soon as possible.

Fiona McLeod: Has the communication been sent to the petitioner? What is the petitioner's view?

The Convener: We have not sent it, but we understand that the petitioner has a copy.

Fiona McLeod: Will we seek the petitioner's view?

The Convener: It is incumbent on us to proffer a view to the petitioner along with the ministerial decision to gain a response. What we decide today will be advice to the petitioner. That will bring together the two items. We must make decisions. I have put to the committee an intermediate response to the petitioner. I accept the well-made point about drift. The matter has been going on for many years and was going on prior to the formation of our Parliament. I want to pursue the minister so that we receive a fuller response. Such action will not close a door: it will guide our judgment for future consideration of the petition. I should also like to have a chat with the convener of the Rural Development Committee because we may be able to work together on the matter, as we have previously.

John Farquhar Munro: Is there any point in having a joint meeting with the Rural Development Committee with the minister?

The Convener: I shall investigate all options. If we invite the minister to discuss the petition, I shall definitely ask members of the Rural Development

Committee to attend that meeting. We can then take a further view on the matter.

Bruce Crawford: That is a reasonable suggestion, but to take up Robin Harper's point, the time scale is crucial to the petitioner's wishes. We must deal expediently with the matter.

The Convener: How quickly we can deal with matters is not unlinked to the next item, on trunk roads. Naturally, it depends on the minister's diary, but I stress to him the importance of such a meeting.

Fiona McLeod: We need to know what happened in the Rural Development Committee yesterday, because we can offer the minister a choice of this committee or that committee.

The Convener: Yes, it would be a Tuesday afternoon or Wednesday morning meeting within the next two weeks. We shall proceed on that basis. I shall seek an early meeting with Alex Johnstone of the Rural Development Committee.

Members *indicated agreement.*

12:40

Meeting continued in private until 13:08.

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