

ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

Wednesday 27 October 2004

Session 2

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ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

24th Meeting 2004, Session 2

CONVENER

*Sarah Boyack (Edinburgh Central) (Lab)

DEPUTY CONVENER

*Mr Mark Ruskell (Mid Scotland and Fife) (Green)

COMMITTEE MEMBERS

*Rob Gibson (Highlands and Islands) (SNP)

*Karen Gillon (Clydesdale) (Lab)

*Alex Johnstone (North East Scotland) (Con)

*Richard Lochhead (North East Scotland) (SNP)

Maureen Macmillan (Highlands and Islands) (Lab)

*Mr Alasdair Morrison (Western Isles) (Lab)

*Nora Radcliffe (Gordon) (LD)

COMMITTEE SUBSTITUTES

Alex Fergusson (Galloway and Upper Nithsdale) (Con)

Janis Hughes (Glasgow Rutherglen) (Lab)

Jim Mather (Highlands and Islands) (SNP)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

David Dalgetty (Scottish Executive Finance and Central Services Department)

Lewis Macdonald (Deputy Minister for Environment and Rural Development)

Jim Wildgoose (Scottish Executive Environment and Rural Affairs Department)

CLERK TO THE COMMITTEE

Mark Brough

ASSISTANT CLERKS

Chris Berry

Catherine Johnstone

LOCATION

Committee Room 4

Scottish Parliament

Environment and Rural Development Committee

Wednesday 27 October 2004

[THE CONVENER *opened the meeting at 10:34*]

Item in Private

The Convener (Sarah Boyack): I welcome committee members, witnesses, the press and members of the public to the meeting. I have an apology from Maureen Macmillan. I ask colleagues, and everyone else in the room, to switch off their mobile phones. We got hit with a phone going off in the middle of the previous meeting.

Agenda item 1 is to ask members to agree to take in private item 4, which is consideration of our draft stage 1 report on the Water Services etc (Scotland) Bill. I would also like members' approval to continue to consider the report in private session until we agree it, which should be on 3 November. Is that agreed?

Members *indicated agreement.*

Budget Process 2005-06

10:35

The Convener: We are undertaking stage 2 scrutiny of the budget and we are required to report to the Finance Committee on the spending proposals in the environment and rural affairs portfolio. We have before us several documents that will help us to consider the issue: the Executive's spending review proposals for 2005-2008; the draft budget for 2005-06; and a letter from the minister responding to the issues that we raised when we last discussed the matter, which was in the spring of this year.

We also have in front of us the Deputy Minister for Environment and Rural Development, Lewis Macdonald. I welcome him to the meeting, which is his first with us in his new role. He has had two weeks to memorise the budget and work out what has been happening to it. We also have with us David Dalgetty and Jim Wildgoose from the Environment and Rural Affairs Department. I hope that our discussion will shed light on the budget. We also have with us our adviser, Professor Ken Thomson, who has provided us with some thoughts to kick off with.

I have a couple of initial comments. When we last wrote to Ross Finnie, one of our big issues was trying to track targets to see where they had gone from year to year and trying to work out why some targets were in and what they meant. We asked Ross Finnie a number of questions about that. I want to structure today's meeting to let us discuss first process issues about the budget and the draft reports that we have had in front of us, after which we will go into the detail. That is how I want to handle it when we get to questions.

First, the minister might want to make opening remarks and set the scene for us.

The Deputy Minister for Environment and Rural Development (Lewis Macdonald): I am happy to do that. I am grateful for the opportunity to have this discussion early in my tenure of this brief. Preparing for the discussion has been helpful in focusing me on the wide range of responsibilities that fall to the environment and rural development portfolio.

David Dalgetty, whom you mentioned, is the head of finance at the Scottish Executive Environment and Rural Affairs Department and Jim Wildgoose is the head of general agricultural policy there. They will be able to assist with the more technical matters that, I suspect, may arise in questions.

I will deal briefly with three areas in my initial remarks: first, changes to the spending proposals

for 2005-06 as a result of the recent announcements on the spending review for 2004; secondly, the extent to which we have been able to take on board the committee's views on the previous 2005-06 plans that were set out in the annual evaluation report; and thirdly, a couple of areas where there remains uncertainty about the details of 2005-06 spending and where our final budget proposals will reflect decisions that are yet to be finalised. The draft budget provides a fair amount of clarification on several of those points, but I want to add a little to that.

The decisions taken in the 2004 spending review were, of course, mainly about priorities for spending in 2006-07 and 2007-08. The plans for 2005-06 that we will consider during the meeting were set out initially as part of the 2002 spending review. By and large, those proposals are unchanged. However, there are two exceptions to that. First, outwith the general block allocation of resources from the Treasury, we received some consequentials from landfill tax credit. Those amount to £8 million in 2005-06. Of that, £5.8 million has gone to the SEERAD budget for waste initiatives and will be used to encourage the market for recycled products and to provide advice to businesses on making better use of resources. There are similar consequentials for the two following years.

The second change is the allocation of £3 million in 2005-06 to establish a timber transport fund. Again there are further allocations for the two following years. That meets our partnership agreement commitment to address the needs of pressured rural roads as a result of the large scale of timber production that is foreseen. The fund will be operated by Forestry Commission Scotland and I hope that it will go some way towards resolving the conflict between the needs of the timber industry and the pressure that local communities might otherwise face.

The second area I want to address is our response to the committee's former recommendations. That response is set out in the draft budget and I hope that its terms are clear. There are one or two particular points. On the issue of odour controls in relation to waste water plant, we have undertaken to refine the terms of target 2 following the consultation that we will be undertaking during the next few months on water investment and odour control issues.

There was a request for easier access to more detailed information on common agricultural policy pillar 2 payments. More detailed information is now available via the website, but the land management contract scheme on which we are working is intended to meet some of the other concerns about that particular aspect of policy.

As I say, our responses to the formal recommendations are set out in the draft budget. We have also taken on board some of the views expressed about performance measurements and targets. We have made changes to one or two of those targets where the committee had observed that there might be room for improvement. I hope that that will be welcome. It is helpful to us to have had the committee's views hitherto and no doubt there will be further views today.

The third area that I wanted to touch on is remaining uncertainties. The final budget, which will be presented at the same time as the Budget (Scotland) Bill, will reflect a range of detailed changes that will be made on the basis of a fuller view of what we assess will be the requirement for resources in 2005-06. There will be no changes to the spending strategy that has been set out, but there are areas of spending that are sensitive to demand and we will need to adjust the final budget in light of our latest assessment of that demand.

There are two areas where we should expect the final budget for the Environment and Rural Affairs Department to differ noticeably from the draft budget. The first is our spending on common agricultural policy schemes. As the committee is aware, that spending is not part of the Scottish block; it is classed as annually managed expenditure and the resources needed to make payments are provided by the Treasury. The plans for that spending that are shown in the draft budget are subject to review in light of CAP reform and the introduction of the single farm payment scheme. We await finalisation of the sterling value of annual payments under the scheme, but we expect total spending to exceed £400 million per year. The final budget is likely to set out a resource requirement at approximately that level.

The other uncertain area is rural development spending, which is funded partly by domestic resources and partly by modulation resources taken from CAP payments. We have sufficient resources in our plans to match fund an aggregate national and EU modulation rate of up to 10 per cent, but we have yet to make final decisions on what the national rate of modulation should be for 2005, 2006 and 2007. That is clearly a continuing process. We are considering what our priorities should be for related rural development programme spending and we will set domestic modulation rates that will raise the revenue that is needed to meet those priorities. That setting of priorities will, of course, follow the consultation that we are to undertake with the range of interested parties.

By the time that we present the final budget at the beginning of next year, those decisions will have been made and the budget will set out the consequential changes to some of the numbers

that are currently shown in the draft budget for co-funded rural development schemes. There will be no change to spending for the less favoured areas support scheme, which will continue at £61 million. Members will note that the draft budget contains the slightly different figure of £56.8 million, but that is for technical reasons, which I shall explain if required, and the spending level will remain at around £61 million. That scheme is not funded through modulation, but it is part funded directly by the European Union as part of the current rural development programme for Scotland. The accompanying financial plans agreed with the Commission show a drop of £4 million in its contribution to the less favoured areas support scheme in 2005, but we shall make up that shortfall by using domestic resources from our central unallocated provision. As I said, gross spending will continue at that £61 million level. What we have shown in the document is the committed spend. The gap will be met from our own resources.

Those are the three areas that I thought it might be helpful to cover to begin with. I look forward to answering members' questions.

10:45

The Convener: Thank you. As I suggested at the start, I would like us to work through the budget methodically, for the benefit not only of the committee, but of the minister and his officials.

It would be useful to the committee if we could spend a little time on the process issues and the backdrop to the budget. Your comments about performance measurements and targets were quite helpful, but the difficulty for those of us on this side of the table is in working out exactly what happens to targets that have disappeared, how they are monitored and how they will be taken forward in future. Could you give us information on what you will do with the monitoring of old targets that have now disappeared? Are they regarded as dead and buried, do they get changed and rolled forward to the future or do they just stop?

Lewis Macdonald: You are right to start there, because the nature of the process is that we are required when we come to the spending review, as we have done this year, to identify a number of key targets that highlight and focus what our efforts and priorities will be over the three-year period. We have clearly done that, and in the process of doing that some of the former targets have dropped off that list. However, in a general sense, we feel that all those targets have either largely been met or will continue to be targets for the agency that is responsible for implementation. For example, some of the former targets on water will continue to be the responsibility of Scottish

Water and we shall want Scottish Water to continue to monitor them.

The Convener: So they have not actually disappeared?

Lewis Macdonald: They do not cease to be targets, nor do they cease to be monitored, unless—as has happened in one or two cases—we feel that they have largely been met, when they no longer need to be monitored in the same way. I think that David Dalgetty would like to add something.

David Dalgetty (Scottish Executive Finance and Central Services Department): The only exception that I can think of is the previous target for the less favoured areas scheme, which the committee did not think much of and which we have simply replaced in the spending review this year with what we regard as a new target that captures rather better the underlying purpose of the spending. That is the only example that I can immediately think of, of replacing a target that we agreed with the committee was inadequate.

Lewis Macdonald: Most of the rest of the targets that have been replaced would fit more closely to the pattern of the target on recycling by local authorities. We had set a target for 2006, but it has been superseded, as I announced last week, by a new target for 2008. Of course, we shall still expect local authorities to meet their 2006 targets on the way to meeting the new target for 2008.

The Convener: Do those changes get captured anywhere in a progress chart that would come back to us? That would obviously be useful for different agencies and for the Scottish Executive. Is there any transparency about that process?

David Dalgetty: You will understand from the timetable for the year and the formality of the process that the point at which the committee is considering output measures as opposed to the forward plans, either in expenditure terms or in output terms, is at what we call the annual evaluation review stage, which coincides with the first stage of the budget every year in March. You saw the first so-called annual evaluation report this March at the first stage, and you will see the second of them next March. In principle, it is in next March's document that we expect to see reports on the achievement of performance against targets. I expect the number of targets listed in that AER for the Environment and Rural Affairs Department portfolio to be rather longer than the list shown in the document before us, but there will still be a question about where we draw that line. We need to get a feel for the committee's particular interests, because we could end up putting in 1,000 targets that are measured at different levels within the organisation.

The Convener: That was useful and provided clarity. We might want to reflect on the issues that we have considered before and check whether we have missed anything that we previously thought was important.

Do other members have high-level overview issues to raise?

Karen Gillon (Clydesdale) (Lab): I have been through the budget process in various committees in the past five years and I find it particularly frustrating. If the process is to be meaningful, we must get some common ground so that we can monitor and track issues. Committees have asked for that every year for the past five years, but it has not happened. If we are serious about the process, we must be able to track issues.

My interest is in rural development. The only target that I can get my head round is target 7, although it does not really mean anything to me. How can the committee—and you, minister—monitor what is happening with rural development work that does not relate to agriculture, fisheries and forestry? In my constituency, rural development is about far more than that; it is about roads infrastructure, rural employment and affordable housing. How can the committee get a handle on rural development issues that are not about agriculture, fisheries and forestry?

Lewis Macdonald: That is a fair question. To respond to your initial point, the process was bequeathed to us by the consultative steering group, as I am sure members understand. I am sure that the Finance Committee, in considering how best to make ministers accountable for the budget, may consider other possible processes. We are considering an annual budget, most of which—with the exceptions that I mentioned—was announced some time ago. The new information that is potentially available is about the two following years. I am sure that there is wide interest in finding a better way to examine the budget.

What we have in the budget is what we must seek to deliver. Target 7 attempts to give a broad overview of the issues that Karen Gillon mentioned, which are not to do with direct support for primary production, but with promoting general development in rural areas. The committee has previously made the point that certain targets are hard to relate to specifics. Target 7 appears to have something of the same quality, but we want to use it as a means to discuss with other stakeholders in rural Scotland—such as local rural partnerships, community planning partnerships, post offices and other service providers—how the target can be developed into more specific and detailed sub-targets. Once we have done that work with other stakeholders, we will come back, perhaps in the spring of next year, with specific

targets. The committee will be able to analyse them to see whether they will deliver the benefits for which we are looking and also measure how well they are achieved.

Karen Gillon: What does the phrase “disadvantaged areas” in target 7 mean?

Lewis Macdonald: We are trying to identify areas that suffer a disadvantage. Part of the answer to that will depend on the work that we do in the next few months to identify where improved service delivery is needed. The disadvantage that we have in mind is disadvantage in receiving services. The focus of the target is to ensure that communities have adequate access to services, wherever they are located.

The Convener: I return to targets. Are there now two layers of targets: key targets, which you have decided to brand as overall Executive targets, and lesser targets for different organisations? Do you set out anywhere why some targets are key targets and some are lesser targets?

Lewis Macdonald: Organisations such as the Scottish Environment Protection Agency, Scottish Water or Scottish Natural Heritage have in their annual reports—or documents that set out their operating plans—targets that they seek to meet. In that sense, a range of targets apply to public sector bodies in using public funds, which we give them, to achieve the overall objectives that they set. The key targets and objectives that you see listed relate to the three-year spending review period. They are top-level targets, but they are also there to indicate the priority areas for development over that period.

Richard Lochhead (North East Scotland) (SNP): On efficiency savings, I understand that each department has to achieve savings of 2.5 per cent per year for the next three years, which, over three years, would mean efficiency savings of 7.5 per cent. How do you intend to achieve that?

Lewis Macdonald: The responsibility for that lies with the Minister for Finance and Public Service Reform. In other words, the figures will appear in the Administration budget; the figures that you have are for the Environment and Rural Affairs Department's spend and investment. It is an interesting question, but it is perhaps better directed towards the Minister for Finance and Public Service Reform, as he has responsibility for identifying savings, not only for his department but for each Executive department.

Mr Alasdair Morrison (Western Isles) (Lab): I just want to clarify that response. The prophets of doom who are looking for indications in the figures before us of cuts and of the axe being wielded are misguided.

Lewis Macdonald: That is right to a degree. I have described the position regarding the department's budget, but within the department's remit are public agencies that have their own efficiency targets. For example, Scottish Water has already achieved substantial savings and will be expected to continue to pursue efficiency targets as part of the basis on which it is funded.

Rob Gibson (Highlands and Islands) (SNP): You said that Scottish Water has achieved efficiency savings. However, it is clear that that has meant that there is a lot less manning of water facilities and jobs have been lost. I would not like to be dubbed a prophet of doom, but from my visits to water facilities I saw that efficiency savings are making it more difficult for Scottish Water to carry out its job efficiently. We could do with hearing whether you see the loss of jobs, particularly in rural areas where there are small water schemes, as an efficient way to cut costs.

Lewis Macdonald: It is important not to characterise efficiency savings as budget cuts. Such measures are intended to create savings and more efficient use of resources. The measure of efficiency that we will apply to Scottish Water—as we would to any other agency—is whether any savings that it has made will assist it to deliver its services more efficiently. That is what we want our agencies to do. An enormous capital investment budget is required because of the continuous underinvestment in water over many years prior to devolution. The requirement to increase efficiency in order to meet that capital budget will mean that Scottish Water, like every other agency, will be required to make what savings it can without diminishing the efficiency of the delivery of those services for which it is responsible.

Richard Lochhead: I am sure that we will want to return to the issue of efficiency savings, because the minister said that Alasdair Morrison was correct only to a degree.

Lewis Macdonald: Pardon?

Richard Lochhead: You said that Alasdair Morrison was correct only to a degree.

Lewis Macdonald: Your initial question was on the department's budget and he was correct in what he said about that. The agencies are slightly different, as I hope I have now explained, in terms of where the responsibility for efficiency savings lies.

11:00

Richard Lochhead: I have a question on the general context of the increases over the next few years. We are told that the department's share of total Executive spend is to decline from 4.7 per cent to 4.4 per cent between 2004-05 and 2007-

08. How does that reduction in spend compare to that of other departments?

Lewis Macdonald: I am sure that, if Mr Lochhead has the figures for one department, he will have them for other departments.

Richard Lochhead: I do not. Although I looked for them in the budget document, I could not find them.

Lewis Macdonald: I am afraid that I do not have the figures for other departments in front of me. Mr Lochhead will be aware of the substantial increase in overall funding that is being applied across the board. Clearly, the percentage increase to which Mr Lochhead referred is also an absolute increase of some moment that applies across all departments. I ask David Dalgetty whether he wishes to say anything about the overall Executive budget and where the Environment and Rural Affairs Department's increased funding stands in terms of the overall picture.

David Dalgetty: As an avid finance man, I am not sure that I have examined in any great detail the relative performance of ministers in terms of these matters. Mr Finnie tried to address the point in the response that he gave recently to the convener on the first stage of the review. He suggested that too much could be made of what might, from time to time, seem to be variable shares in the aggregate cake. That does not necessarily suggest that a decision has been taken that the Environment and Rural Affairs Department's spending as such has a lower priority than that of any other department. The issue is complex.

Lewis Macdonald: I think that that is right. Although I was not involved in the preparation of the department's bid in the spending review, I was involved in the Enterprise and Lifelong Learning Department bid. I assure Mr Lochhead that ministers do not start by asking what the department's percentage of the overall spend should be and how it can be maintained. Ministers start by asking what services we want to deliver and then how much it will take to deliver them.

The Convener: I have a follow-on question. One of the issues that emerged from Ross Finnie's most recent letter to the committee was the issue of sustainable development. How do we crack the issue of following through the spend on sustainable development? Picking up on the last point that you made, minister, we cannot judge the Executive's commitment to sustainable development by looking only at the Environment and Rural Affairs Department budget. Ross Finnie has the overall ministerial responsibility for sustainable development and yet it is difficult to judge the overall spend on this area.

In the minister's last letter to me, he says:

"The priority which we continue to attach to spending on waste and on the sustainability in the farming, fishing and forestry industries amply demonstrates our ongoing commitment in this area of over-arching policy."

I would like to see a lot of other things come under that heading so that we could see the Executive's overall commitment to sustainable development. How can we track the spend on sustainable development through the document? It does not show through from the department's draft budget.

Lewis Macdonald: Again, like the issue that Richard Lochhead raised on other departments' funding, sustainable development is an area that involves spending across departments. Clearly, if we are to look at the spend on sustainable development, it is not sufficient to look only at the Environment and Rural Affairs Department's budget. Quite a lot of what is being done to address sustainable development is being done by other departments. In particular, the promotion of renewable energy—an area that I know well—is the responsibility of the Enterprise and Lifelong Learning Department. Another example is the improvement of public transport services, responsibility for which lies with the Minister for Transport.

I guess that the area that should be highlighted, given that it is one for which our department has particular responsibility, is the waste strategy. I mentioned at the outset that we were looking to use the landfill tax credit consequential to add to the work that we are doing in that area. As I also mentioned earlier, we have set new targets for recycling within our existing strategy.

That is a partial answer to the question. There are areas for which we are responsible and other areas for which other departments are responsible. Our overarching responsibility is less in terms of budget and more in terms of policy and co-ordination. Environment and Rural Affairs Department ministers are responsible for working with all our colleagues on the promotion of sustainable development within their departments and across the Executive as a whole.

Mr Mark Ruskell (Mid Scotland and Fife) (Green): Although BABS II makes explicit SEERAD's cross-cutting responsibility, how does it work in practice? How do your officials work with officials from other departments on the determination of priorities? Is the current situation adequate? Do you have the right tools? Do any changes need to be made?

Lewis Macdonald: I think that there are two main answers to those questions. First, there is the Cabinet sub-committee on sustainable Scotland, which is chaired by the First Minister and of which Ross Finnie and I are members.

Official support for the sub-committee comes from the sustainable development group within SEERAD. SEERAD ministers have regular bilateral meetings with colleagues to address sustainability issues across the Government, and there is our greening Government policy, which is about how the Executive addresses sustainability issues within its own estate, work force and administration. That, too, is useful in addressing some of the issues.

There are also specific additional aspects, such as the £20 million fund for public sector energy efficiency that was announced earlier this year. That will have benefits for public agencies that are accountable to different parts of the Government, but the responsibility for co-ordinating it lies with SEERAD ministers.

Mr Ruskell: I understand that the CSCSS sets priorities at quite a high level, but when the detailed operational plans and spending are being considered, how do you iron out the possibility of contradictions? It needs a bit more than occasional bilateral meetings and a top-level meeting of the CSCSS to talk about the big issues; there is a need for somebody to have an overarching role.

Lewis Macdonald: The bilateral meetings and the meetings of the Cabinet sub-committee are held in the context of Cabinet policy and the high-level commitment to sustainable development as one of the key drivers of policy throughout the Executive. They do not exist in isolation, nor are they separate from each other; they are part of the overall co-ordination of policy. Like the other high-level targets that we have set, such as closing the opportunity gap and growing the Scottish economy, we expect sustainable development to be taken on board in all departments and policy areas. The Cabinet itself will keep an eye on that if any question arises about it.

David Dalgetty: I speak as an official from a department that sees manifestations of the sustainability agenda. Without telling tales out of school, it is fair to say that, when we consider options for policy and spending during the spending review, there is a sustainability test for all proposals, so the impact on sustainability policy would be considered as a matter of course in the final decisions about spending priorities. Also, sustainability is embedded in the value-for-money approach to all spending decisions as a key issue that must be taken into account alongside all the other economic arguments.

Mr Ruskell: Does your department monitor that with other departments? Do you assess whether decisions have been made according to the principles of sustainable development?

David Dalgetty: I would not monitor it in the Finance and Central Services Department, but I would expect the management in the departments that are in charge of the projects, policies and expenditure to apply the clear guidance on sustainability to the analysis of, and outcomes that they seek for, the programmes for which they are responsible. There is a framework in which to do that.

Mr Ruskell: Do you know that that is the case? How do you monitor it? You have a cross-cutting responsibility for it and you are saying that you assume that, because the ministers have all signed up to sustainable development, it is being delivered through policy, targets and spending. Who monitors it? You have the responsibility within SEERAD.

David Dalgetty: We could provide the committee with more detail on that issue. My problem is that I am a finance creature, and there is a separate structure in the Executive for monitoring sustainable development issues across the Executive. If any of the people in that structure were here, they could answer your question rather better, but I cannot. I am sorry.

The Convener: That would be useful. Our clerk, Mark Brough, informed us earlier that there would be some communication between us and the minister's officials after the meeting, and we could put monitoring on the list for that discussion. It follows on well from the work that we have done on sustainable development this year, so we would want to follow it up.

Lewis Macdonald: We would be happy to do as suggested. In response to Mark Ruskell, I state that the sustainable development team within SEERAD has responsibility for working with other departments. We will give the committee more detail on that.

The Convener: I am conscious that we are whacking through our time. Do members have any other questions on high-level process issues before we move on to specific topics and policy issues?

Rob Gibson: The issue of end-year flexibility might be addressed now. Table 0.09, on page 7 of the draft budget document, tells us that the end-year flexibility for environment and rural development in 2004-05 is £91.854 million and that the figure for Scottish Water is £205.045 million. We are told that we are going to get documents in the autumn and spring that will tell us how that money is to be allocated. What degree of flexibility is there for allocating that money to priorities that have come up during this year?

Lewis Macdonald: A fair degree. We anticipate that much of that underspend will be brought forward to meet other priorities in the course of the

year. The central unallocated provision, which I suspect the committee will have discussed, exists and the £91 million—the net underspend—has gone, in the main, in that direction. However, when we consider the opportunities later in the year, we will seek to make a claim on some of that for our priorities. Those have yet to be determined, and we will announce more on that later in the year.

Rob Gibson: I will be interested to hear that announcement. Can you give us an indication of whether the global sums are typical of end-year flexibility in the past couple of years?

Lewis Macdonald: I am not sure. David Dalgetty might know that.

David Dalgetty: The water underspend is separate, as there is a commitment from the Executive to fund a third of Scottish Water's investment programme over the current investment period. Those resources will come as and when they are required. The £91 million underspend is net of that. The elements of that underspend are the ones in which we have seen the underspend in the past year or two. The first is the strategic waste fund—a relatively new fund for which quite a big baseline was established two years ago. It has taken a while to get in all the authorities with plans under the waste fund, so we had underspend in the first or second year. However, we are fairly clear that the underspend will be required to meet future pressures on the fund. Another element of the underspend comes from spending on agricultural science pensions, which accounts for £16 million of the non-cash departmental expenditure limit.

The Convener: Sorry, but that is not immediately helpful as an explanation.

David Dalgetty: It is to do with resource accounts and budgeting. Within the baseline under resource accounts and budgeting, DEL is broken down into cash DEL—money that can be spent on schemes, services, non-departmental public bodies, or whatever—and non-cash DEL, which covers non-cash costs such as the cost of capital and the depreciation provisions that we have to make for bodies such as NDPBs and agencies that use capital and incur non-cash costs. Those costs now have to be accommodated within the aggregate DEL.

The £16 million is slightly odd. There was some underspend due to slippage on fisheries capital expenditure for the new fishery protection vessel. We expect to allocate that this year, in the budget, because the vessel is being built. The nature of the underspend last year was much the same as the nature of the underspend in the year before and in the year before that.

Rob Gibson: I hope that we will get a chance to question the minister on the allocation of the money before it is allocated.

Lewis Macdonald: Yes. More than likely, we will produce a revised budget for the current financial year in November, which will detail spending across the board.

11:15

Rob Gibson: Convener, can we have an assurance that we will get a chance to question—

The Convener: We have just had an assurance that the revised budget will be published and the committee will have the chance to explore that if we want to spend the time on it.

I am keen to let members talk through some of the policy issues that arise from the budget. I will take them in order according to the paper that Ken Thomson gave us. Does anyone have any questions for the minister on the water lines? We will debate the Water Services etc (Scotland) Bill later this morning.

One obvious point is that some targets have been set in advance of setting quality and standards III, which, as we understand from our work on Q and S III, is where the quality and standards are meant to be set. Will you speak about how that works in practice and how the spending proposals will help to deliver compliance with the standards for drinking water quality, waste water quality and odour control?

Lewis Macdonald: I take it that you refer to targets 1 and 2, which require Scottish Water to reach its efficiency targets and to achieve improvements in drinking water quality and in discharge of waste water. Those targets are deliberately set in terms that reflect the fact that some of the detail will have to await completion of the process of setting charges and agreeing the capital programme. Both of those processes are under way.

Members will have seen the documents for the future charging regime and the future capital investment programme that have been consulted on. The efficiency targets that will be set following that consultation will then feed into target 1 and the quality targets that will be set as part of the capital investment programme consultation will then feed into target 2 on completion of that consultation. I cannot tell the committee the detail of those targets this morning, but we have consulted on them and members can take it that those high-level targets imply all the targets that will then be set in the documents when we come to make ministerial decisions and publish them early next year in both cases.

Mr Ruskell: I want to ask the minister about new target 3 to

“Bring 80% of the special features on Scotland’s nationally important nature sites into favourable condition by March 2008.”

Are we going to have a clear definition of “favourable condition”? It is clear that that will affect the budget considerably. Related to that, are you confident that SNH has in its existing budget the resources to enable positive management contracts to be issued to deliver that favourable condition, whatever that favourable condition is?

Lewis Macdonald: Yes. The budget has been set to allow SNH to address precisely those issues. In its response to the budgetary provision, we expect that SNH will identify where there are issues with the condition of sites that need to be addressed and the means that they intend to use to do that. Perhaps my colleagues want to comment on particular aspects.

David Dalgetty: In the light of the ministers’ decision on resource allocation in line with target 3, we expect some formal consultation with SNH on the review of its corporate plan as we move forward. We expect to see the distribution of resources in the corporate plan being done in such a way as to enable SNH to meet the target.

Lewis Macdonald: In a sense, it is a bit like the water situation: we have set an overarching target and we expect the agency to turn that into precisely the detailed proposals for individual cases that you seek and to provide the definition of what it can and needs to do to meet that overarching target.

Mr Ruskell: So the process is that you set the budget and then say to SNH, “You determine what is a favourable condition, given that you have only a limited amount of money to spend on it.” Is there any other way round it?

Lewis Macdonald: Yes, we look to SNH to advise us. Clearly, some aspects will require ministerial decisions, but the organisation advises us on any shortfall in the condition of sites, what requires to be done and how it intends to do it. As a result, there is a dialogue; we do not simply give SNH something to do and tell it to come back to us in three years’ time. We make the financial provision, seek the organisation’s advice and then provide instructions as required to carry matters forward.

The Convener: Without getting into the rights and wrongs of the decision, which I have rehearsed elsewhere, am I right in assuming that the current budget line does not include any provision for the relocation of SNH and its staff? Will the Finance and Central Services Department add it to the budget later on? I simply seek a reassurance that this budget is not the full story.

Lewis Macdonald: You are absolutely right to deduce that. It relates back to Rob Gibson's question about the budget's final form. Clearly, we will look to the central unallocated provision for the funding required to meet the costs of relocating SNH. We would expect to include the figure in the revised budget, which will be published in a few weeks' time.

David Dalgetty: If I may, minister, I should point out that, depending on when SNH comes to us with the final costs—particularly the costs of relocation and of redundancies for those who do not want to move to Inverness—we might have to add that figure into the final 2005-06 budget. It will come to us at some point between now and the middle of next year.

The Convener: Thank you for that clarification.

Does anyone have any questions about environmental protection?

Mr Ruskell: I have another question about targets—indeed, you can probably guess what I am about to ask. The draft budget contains a new and extremely welcome target for introducing flood prevention measures, which is very much about tackling the symptoms of climate change. Are you thinking about introducing a specific Scottish target for greenhouse gas reductions into the Scottish climate change programme, which will be reviewed later this year? That would allow us to have a twin-track target that would deal with the symptom and the cause at the same time.

Lewis Macdonald: Such undertakings are made by the United Kingdom as a member state of the European Union and, internationally, as part of wider treaty commitments. As you point out, there will be a review of the Scottish climate change programme, which will consider a range of questions.

You referred to dealing with symptoms and causes. That is fair enough. Although some measures such as flood prevention schemes address symptoms, other steps such as the promotion of renewable energy address causes. Given that wider UK targets exist and that we have a role in delivering them, an appropriate twin-track approach is already in place. The question for the Environment and Rural Affairs Department and for the Executive more generally is how best we can contribute to the work. I am pleased that flood prevention funding has been substantially increased, but I repeat that we have also introduced parallel measures to address the causes.

Mr Ruskell: Do you acknowledge that the Executive's spending proposals over the whole BABS programme and the spending review might contain some contradictions? For example, your attempts to tackle climate change through

promoting renewable energy might well be somewhat offset by other aspects of Executive spending such as road building. I am not passing judgment; I am simply saying that there are contradictions and that you have to make trade-offs according to your policy. How do we get a handle on that? After all, the current targets do not make it clear whether we are moving forwards, moving backwards or staying still.

Lewis Macdonald: You might want to explore the details of our transport budget with the relevant Executive department. Under that budget, significant investment is being made in public transport and important measures are being introduced to reduce the impact of vehicles on the environment.

It would be unreasonable and inaccurate to suggest that the work that is being done to promote renewable energy or to address flooding issues is cancelled out by what is in the transport budget. Like the budget that we are discussing, the transport budget seeks a balance that delivers sustainable development. There is always a balance to be found; the issue is always about how to develop the economy, transport services and flood protection and alleviation measures in a sustainable way. That is the clear objective. You will want to pursue issues in relation to particular aspects of that, but I stress the overall policy direction and the clear commitment at the highest level of Executive policy to a sustainable approach.

Nora Radcliffe (Gordon) (LD): I want to cover two separate matters. Dealing with abandoned vehicles is one of the priorities that you have listed. What discussions have you had with the United Kingdom Government about its interpretation or implementation of the end-of-life vehicle directive? It seems to me that the United Kingdom Government's onus on the last owner of a vehicle—who is likely to be some kid who has bought a clapped-out motor car—will almost encourage people to abandon vehicles and that there will be a much heavier burden on us as a result of how the directive has been interpreted. What work has been done to try to head off that problem at the pass, perhaps by loading the costs on to new cars to create a fund to cope with end-of-life vehicles?

Lewis Macdonald: I have not been involved in discussions with the UK Government on the issue, and am not sure whether colleagues have been involved. In general, we will be involved in the implementation of the end-of-life vehicle directive, as we will in implementation of the waste electrical and electronic equipment directive, which is parallel and will come into effect at much the same time. As one of the bodies that is responsible for implementation, we would expect to have

discussions with the UK Government, which, as the member said, has the responsibility for it. However, the broad thrust of the end-of-life vehicle directive is clear, and, as you will have gathered, we will give budgetary support for that.

Nora Radcliffe: I worry about a looming crisis.

The farm waste grant scheme is the other issue that I want to raise under waste recycling. Am I right in thinking that that is the scheme under which the Royal Scottish Agricultural Benevolent Institute used to collect? Is it the scheme that involves collecting waste plastic from farms and taking it to a recycling plant?

David Dalgetty: No. The scheme was intended to address issues relating to nitrates in nitrate-vulnerable zones over a fixed period and the need to put in more slurry pits and so on where nitrate effusions were higher than they should have been.

Nora Radcliffe: Right. I would like to pursue the withdrawal of support for the scheme for collecting farm waste plastic. Actually, I will pursue the matter separately.

The Convener: Okay. We can return to that. We might want to pick it up in writing. Does any member have questions on rural development?

Richard Lochhead: I was going to mention some things that Nora Radcliffe has just mentioned to do with waste plastics and so on, but if we are going to seek a letter, I will wait for that.

The Convener: I think that you should.

Richard Lochhead: On flexibility, can the minister advise the committee about the CAP changes? Many uncertainties surround CAP, and we do not know how the single farm payments and land management contracts will impact on our rural communities. What flexibility will there be? We do not know what issues will emerge that will impact on our rural communities.

Secondly, on our fishing negotiations in December, we have seen negotiations go pear-shaped over the past two or three years and there have been economic consequences for our fishing communities.

The Convener: Do you want to ask about fishing afterwards? I was going to deal with fishing as a separate topic.

Richard Lochhead: The same sort of issue is involved—flexibility, and how that has been built into the calculations.

Lewis Macdonald: I will deal with the question on CAP first. In my introduction, I commented on the consequences of the yet-to-be-resolved CAP matters and said what we expect the total budget to be. It is worth drawing committee members' attention to table 9.07 in the draft budget.

Members will note an apparent trebling of the rural stewardship scheme's budget for 2005-06. I fear that that is only because the higher figure contains many of the modulation payments. It has not yet been specified where those payments will go. As I said, the rate of modulation in our own budget has not yet been set. When we come to the final budget, some of the figures will have changed because we will have come to a final view on where the funding should go. Jim Wildgoose may wish to add to that answer.

11:30

Jim Wildgoose (Scottish Executive Environment and Rural Affairs Department): As the footnote to table 9.07 makes clear, the new single farm payment is counted as annually managed expenditure and is therefore not scored in the table. That payment is roughly £400 million. That money will be paid out under European Union regulation and there is a fair degree of inflexibility—we will have to pay that money out.

When it comes to rural development spending, there is some flexibility—especially in relation to the modulation funding that the minister just mentioned. We are currently in discussion with the Commission about the measures under the land management contract menu scheme and we hope to be able to make an announcement shortly. That will give us some flexibility in how modulation funding is allocated. The announcement on the interim rates of modulation for 2005-06 will depend on the outcome of those discussions. The modulation rate for 2007 has been set at at least 10 per cent—that is the total rate for compulsory and national modulation.

Alex Johnstone (North East Scotland) (Con): I would like to explore in slightly greater detail the relationship between the countryside premium, organic aid and rural stewardship schemes. In previous years, funds have been switched from the countryside premium scheme to organic aid. In the projections, is that likely to be reversed?

Lewis Macdonald: I do not know about reversed. You mentioned three items; I made particular mention of the rural stewardship scheme because it is the largest, but they all include sums that are not yet allocated.

Alex Johnstone: Yes, but in previous years, despite the projections, the funds for the countryside premium scheme have reduced and those for organic aid have increased. Is that likely to continue?

Lewis Macdonald: I am told that the answer is yes.

Alex Johnstone: In the past, there has been some parking of the issue of rural stewardship. Is

the figure of £29,888,000—also projected for future years—a theoretical figure, or does it represent a ceiling to the scheme?

Lewis Macdonald: I think that the answer is that it is a theoretical figure.

Alex Johnstone: So it is not a ceiling and funding for the scheme could increase over time if necessary.

Jim Wildgoose: It is not a ceiling. The figures for 2004-05 and 2003-04 show an increase in the underlying spend. We might expect that to continue. An issue that arises is how the modulation money that is reflected in the £29.9 million will be allocated in future under the tier 3 arrangements for land management contracts. We will have to consider the rural stewardship scheme in that context. The scheme might continue in its present form or it might change slightly. However, we would expect the expenditure to continue to rise.

Karen Gillon: I have a question that follows on from that. Once the system for land management contracts has been worked out, will it get a separate line in future budget documents?

Lewis Macdonald: Yes.

Karen Gillon: My second question concerns the definition of “productive use” in target 6, which relates to land in less favoured areas. What do you mean by that and how will “productive use” be measured?

Lewis Macdonald: It will be measured by the number of cattle. That is probably the short answer.

Jim Wildgoose: The previous target was not very helpful in that it talked about the number of applicants applying under the less favoured area support scheme—it referred to a figure of about 13,500 applicants. The present target sets out what we are trying to do in terms of the productive use of the land. We will measure the area of land for which applications are made under the scheme, which will mean that we will be able to say how much productive land there is. That will be counted as being the area that is covered by the applications that are made under the scheme, so we will be able to measure directly whether the target is being met.

I do not have the exact figures with me, but I think that those areas of land have been decreasing very slightly. Such reductions are inevitable because of factors such as development. It will be possible to measure target 6 fairly precisely. We will take as the measure of land in productive use the area of land that is returned as being within the less favoured area scheme.

Karen Gillon: As I have said before, the next target is less easy to measure. In fact, it is not even very clear what target 7 means. How will the spending that you are proposing under targets 6 and 7 and the two targets themselves ensure that there is increased rural prosperity, improvement in the environment and continued sustainable development? I and other members of the committee are frustrated that we cannot get a good handle on rural development from the budget process because target 7 is so vague.

Lewis Macdonald: In relation to target 7, it is worth saying that the delivery of services in rural areas is not simply a SEERAD responsibility. That is why, in building on target 7 and turning it into something more detailed, we will need to work with other Government agencies and departments. We will hone that wider target to produce something more specific on the delivery of services to particular areas.

Karen Gillon: What is the timescale for that? Will you come back to the committee when that has been finalised?

Lewis Macdonald: I am sure that we would be happy to come back to the committee. The expectation is that we should have completed that work by the spring.

Mr Ruskell: In your statement of priorities for 2005-06, you identify

“implementation of the Organic Action Plan.”

I note that the figures in this year’s budget are substantial, but the figures for successive years tail off considerably. Will you explain the thinking behind that? Are the figures for the next three or four years high enough to allow you to meet the targets in the organic action plan?

Lewis Macdonald: That comes back to the issue that was raised in the questions about the specifics of the various pillar 2 or modulated objectives within funding for rural development. On paper, it looks as if funding for the organic aid scheme will suddenly dive from more than £8 million to just over £2 million but, as has been explained, a range of figures will be revised once we get to the final stage of the budget process, when we will be able to assess what we need to deliver on the different priorities.

Mr Ruskell: Okay, that is clear; we are talking about the same issue again.

In addition to the organic aid scheme heading, what other rural development spending headings cover elements of the organic action plan? Apart from the organic aid scheme, what other forms of funding are you using to support the organic sector? Given that support for the organic sector is one of your priorities, it is not clear how it is being supported under the other budget headings.

Lewis Macdonald: The organic aid scheme is our principal vehicle for doing that. Of course, even in rural areas, there are some limitations on what funding the Government can provide to particular players in the market against others. The organic aid scheme meets the state aid requirements and is therefore the vehicle that we use for that purpose. There are other aspects of the overall provision of support that are designed to encourage continued productive use of the land and might be of benefit to those who are engaged in organic agriculture, but the organic aid scheme is the vehicle that delivers the specific support.

Mr Ruskell: Through the organic action plan, you identified a wide range of areas that need to be worked on, including public procurement, but I do not see any reflection of that in the spending. If the organic aid scheme is the primary vehicle and there is nothing else, how are you going to deliver the organic action plan?

Lewis Macdonald: It is the vehicle of support for organic agriculture, but public procurement would lie elsewhere.

The Convener: Can we pick up that matter in correspondence? It clearly does not lie under the budget heading.

Lewis Macdonald: I would be happy to do that. There are other aspects that lie outwith our budget.

Mr Ruskell: That would make the budget more transparent.

Richard Lochhead: One of the challenges that faces the committee is to hold the Government to account on rural development, but the majority of schemes under the rural development heading in the budget are agricultural, so the heading should be "agriculture", not "rural development". There are not many wider rural development issues under that heading apart from agriculture issues, which are important.

I am concerned about the fact that you say that your figure for the rural stewardship scheme is theoretical, but it is the only figure that accounts for the increase in the overall budget for what you call "rural development". In other words, if we take out the theoretical figure, there is almost no increase in the rural development budget over a matter of years. Why is that the case? Does it not show that you are not really putting investment into rural development?

Lewis Macdonald: If I understand you correctly, your point is that the increase in the overall budget from 2004-05 to 2005-06 is matched by the increase in the budget line for the rural stewardship scheme and associated schemes.

Richard Lochhead: Yes.

Lewis Macdonald: As you can see, the budget of £136 million increases by £24 million over the three-year spending review period, so it is not insubstantial.

Richard Lochhead: Yes, but the increase is theoretical. If I lived in rural Scotland and saw that figure, I would think that it was a dramatic increase, but you cannot guarantee that that will be the case.

Lewis Macdonald: It will be, but the spending might not be under that heading. The distribution between the rural stewardship scheme and other support for rural development within the overall budget has yet to be settled, but the total is there. I am sorry if that was not clear at first.

Richard Lochhead: Is that not the case only if you go for 10 per cent modulation?

Lewis Macdonald: No, it does not assume a 10 per cent modulation figure because, as I said, the rate of modulation for 2005-06 has yet to be settled. By the time that we get to 2007, it will be 10 per cent, but the progress from here to there has yet to be settled.

The Convener: I am conscious that we are beginning to overrun our time but still have substantial issues to deal with. We might want to deal with fisheries and forestry in particular. I ask the minister to write to us about what could be seen as a discrepancy between historical and future spending in the budgets for research and sustainable action and for agriculture and biological science. Perhaps we could have an answer on that in a bit more depth afterwards rather than explore it in questioning.

Richard, you have already mentioned fisheries. We might want to go into one or two issues to do with decommissioning and transitional aid. Did you have a particular question?

Richard Lochhead: In light of the fact that there are negotiations in December, what flexibility will there be? In the past few years, the negotiations have been bad for Scotland, which has led to huge economic difficulties for the catching, processing and onshore sectors, which have received next to no support from the Government. Given that we do not know what the outcome of the December negotiations will be, to what extent have you built contingency funds into your plans to ensure that the industry survives?

Lewis Macdonald: You will not be surprised if I start by saying that I do not accept your analysis of the outcome of the last two fisheries councils.

Richard Lochhead: Your Government reversed the decision twice.

The Convener: One at a time, please, Richard. You have asked the minister a question and he is

now answering it. I might let you back in if you have a supplementary.

11:45

Lewis Macdonald: Let me start by pointing out that we should recognise that the budget process is separate from the process of negotiating with our European partners in order to attain sustainable fisheries. Table 9.09, which sets out the fisheries spending plans for 2002 to 2008, shows the expected increase in spending. Clearly, the work of Fisheries Research Services is critical in ensuring that there is a sustainable level of fishery effort to provide the scientific knowledge on which decisions can be based. Equally, the Scottish Fisheries Protection Agency delivers on our behalf measures that are necessary to ensure that there are sustainable levels of fishery. Members will see that the agency's funding has been significantly increased.

Perhaps I should explain why the figures under the heading of "Fisheries Grants"—which are made primarily under the financial instrument for fisheries guidance—are not increasing in the same way. The budget line for 2005-06, which we are considering today, is £14 million; indeed, that has been the line for two or three years now. However, because the industry has not taken all the available budget opportunities, we have adjusted the figures downward for 2006-07 and 2007-08. The figure for 2005-06 is the continuing budget line. Although we would be surprised and pleased if all that funding were called on, the evidence of the past three years is that it might not be.

Richard Lochhead: I have a small supplementary question. However, I should also point out that the fact that your predecessor changed last December's deal in April and September clearly shows that it was not particularly good.

Fish processing needs on-going support. A recent parliamentary answer to my colleague Rob Gibson pointed out that since 1999 there has been a 57 per cent decrease in fish-processing employment. That very substantial fall has had a major impact on our communities. The sector has been crying out for support for a long time with no response from the Government. Can you give us an idea of when we might receive level 4 figures, which might indicate some support for fish processing?

Lewis Macdonald: Again, I would disagree with your analysis of the levels of Government support for the fish-processing sector, which I know well. Fish processing is eligible for fisheries grants, but not enough of the applications that are required to take advantage of them have been submitted to use up the budget line.

As part of our sustainable development approach, we look to the processing and other sectors to support and pursue a sustainable development strategy, part of which is plant modernisation. That is why this significant sum has been made available not just to processing but to the fisheries industry in general. As I said a few moments ago, I very much encourage the industry to submit applications so that we can see whether the funding that has been allocated for 2005-06 can be used up.

The Convener: I am very tempted to close our discussion on the budget process at this point.

Alex Johnstone: I have a question about forestry.

The Convener: Is it a brief one?

Alex Johnstone: It depends on how long the answer takes.

The Convener: Well, I ask you to keep your question brief and ask the minister for a brief reply. If the question requires a very lengthy explanation, we could always ask him to provide some of his response in writing.

Alex Johnstone: My question revolves around policy as well as the allocation of budgets. In his opening remarks, the minister mentioned that a great deal of timber production is going on. I am grateful for the introduction of the timber transport fund, which will have a big impact and alleviate some of the problems that are associated with such transport. However, as we go into this period of high timber production, I am concerned about the replacement of forests in Scotland. Is there a budget stream that will adequately cover responsibility for replanting clear-felled forests or does the budget contain a deficit that will result in bare hills, with all the associated local and international impacts on landscape and climate that that will bring?

Lewis Macdonald: That is a fair question. It might help to remind members that there will be a debate on forestry tomorrow, which will allow us to explore some of these issues in the chamber.

The simple answer to your question is yes. We feel that there is provision for increasing the budget for woodland grants. Furthermore, Forest Enterprise Scotland is still required to make good commercial use of the forestry as well as have regard to aspects such as environmental stewardship, access and so on that are highlighted in the draft budget.

Alex Johnstone: I will bring the matter up tomorrow.

Lewis Macdonald: Okay. I will speak to you about it then.

The Convener: I thank the minister and his officials for attempting to answer our questions. I think that we have pretty thoroughly explored exactly what is happening, which is something that we have historically found to be very difficult. We will follow up some of our questions in writing afterwards.

I must now ask colleagues for their permission to meet in private to discuss our draft report. The meeting is expected to take place next week to follow on from today's discussions and I hope that we will formalise the report thereafter. Are members agreed?

Members indicated agreement.

Subordinate Legislation

Controlled Waste (Fixed Penalty Notices) (Scotland) Order 2004 (SSI 2004/426)

Litter (Fixed Penalty Notices) (Scotland) Order 2004 (SSI 2004/427)

11:50

The Convener: We move swiftly on to consideration of two items of subordination legislation. Both negative instruments have already been considered by the Subordinate Legislation Committee, which I am delighted to say has had nothing to report on this occasion. Do members have any comments on these orders?

Members indicated disagreement.

The Convener: Are members content with the orders and happy to make no recommendation to Parliament?

Members indicated agreement.

The Convener: As previously agreed, we will move into private session.

11:51

Meeting continued in private until 12:36.

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