RURAL DEVELOPMENT COMMITTEE

AGENDA

10th Meeting, 2002 (Session 1)

Tuesday 16 April 2002

The Committee will meet at 2.00 pm in Committee Room 2

1. **Budget Process 2003-04**: The Committee will take evidence at stage 1 from—
   - Peter Stewart, Vice President, National Farmers’ Union of Scotland
   - Ian Rideout, Chief Executive, Scottish Crofting Foundation
   - Hamish Morrison, Chief Executive, Scottish Fishermen’s Federation
   - Ross Finnie MSP, Minister for Environment and Rural Development.

2. **Subordinate Legislation**: The Committee will consider the following instruments under the negative procedure—
   - The Dairy Produce Quotas (Scotland) Regulations 2002 (SSI 2002/110)

Tracey Hawe
Acting Clerk to the Committee
The following papers are attached or are relevant to this meeting:

**Agenda item 1: Budget Process 2003-04**

A paper from the Clerk reproducing the Committee’s conclusions from the Stage 2 report on the 2002-03 Budget.

A letter from the Minister, Ross Finnie MSP, responding to the Stage 2 report on the 2002-03 Budget.

A Supplementary Stage 1 guidance note from the Finance Committee to Subject Committees is attached.

A briefing note from the Scottish Executive Finance Department.

Evidence from the Scottish Fishermen’s Federation.

A private briefing paper from the Committee’s Adviser *(for Committee Members only)*.

A private paper on the Scottish Executive’s Annual Expenditure Report from the Committee’s Adviser *(for Committee Members only)*.

A private paper on Modulation from the Committee’s Adviser *(for Committee Members only)*.

Members are reminded to bring with them a copy of the Annual Expenditure Report [http://www.scotland.gov.uk/library5/finance/aesed-00.asp](http://www.scotland.gov.uk/library5/finance/aesed-00.asp)

**Agenda item 2: Subordinate Legislation**

The Dairy Produce Quotas (Scotland) Regulations 2002 (SSI 2002/110)

The Plant Protection Products Amendment (Scotland) Regulations 2002 (2002/117)

Subordinate Legislation Committee 18th Report
RURAL DEVELOPMENT COMMITTEE

BUDGET PROCESS 2003-04 – STAGE 1

At its meeting on 16 April 2002 the Committee will hear evidence from the Minister for Environment and Rural Development, Ross Finnie MSP, on the 2003-04 Budget.

As well as discussing the 2003-04 Budget, Members may wish to pursue points made to the Minister in the Committee’s report (November 2001) on Stage 2 of the 2002-03 Budget process.

A recent letter from the Minister is included in the agenda papers. This letter includes a response to these points. The Minister’s appearance before the Committee on 16 April provides an opportunity to pursue these points further if Members wish.

For Members’ reference, the conclusions from the Committee’s Stage 2 Report dated 6 November 2001 are reproduced below:

“The Committee has not decided to make recommendations on changes to funding allocations. However, the Committee makes the following points in the interests of further developing effective scrutiny and the Committee’s consideration of future budget processes.

- While understanding the reasons for it this year, the Committee emphasises its hope that underspend would not continue at a similar level.

- The Committee would like to see further presentational improvement to allow more evidence of departmental strategy development to be reflected in budget lines, so that changes in expenditure emphasis attributable to strategic priorities are discernible in more detail.

- The Committee would like to see more appropriate general explanation of features of the budget, such as DEL, AME and capital charges.

- The Committee would like to be kept informed of several continuing developments, particularly the ongoing assessment of the expenditure impact of Foot and Mouth Disease and work to analyse other departments’ spending impacting on rural areas.

- The Committee would urge real progress on developing robust methods of analysis which allow effective measurement of the impact of the department’s spending on various aspects of overall rural development.”

Tracey Hawe
Acting Clerk to the Committee
STAGE ONE OF THE BUDGET PROCESS 2003-04

Thank you for your letter of 26 March in which you invite me to give evidence to the Committee on the 2003-04 Budget at its meeting on 16 April. Of course I am happy to accept your invitation.

I have been informed about the confusion surrounding the handling of the Committee’s comments on the second stage of the 2002-03 Budget. I understand that it is not part of the agreed process for subject Committees to receive from Ministers responses to their observations on the second stage Budget process but that Executive officials had indicated during discussions through the usual channels that such responses would be given. Unfortunately that agreement was not conveyed to those responsible for dealing with spending portfolios. I regret that procedural confusion and it may be helpful for me to deal here with the Committee’s comments on the 2002-03 Budget.

Linkage Between Strategy and Spending

The Committee indicated that it would like to see further presentational improvement so as to allow changes in spending priorities to be linked more clearly to strategic priorities. I agree strongly that such linkages should be strengthened and made more transparent. The spending plans for 2002-03 and 2003-04 reflect the views which we took on priorities in the 2000 Spending Review (SR) and, as a general rule, one would not expect to see radical changes in spending plans over the ensuing SR years. Rather, changes will tend to be at the margin, reflecting the emergence of unexpected pressures and the need then to manage these within the aggregate of resources available.
Of course, we are now engaged in the initial stages of SR 2002 the conclusions of which - with our spending plans for the three years beginning 2003-04 - will be announced in September. It goes almost without saying that the Executive’s approach to SR 2002 will be driven by its views on strategic priorities and, when we announce the outcome of the SR, I fully expect that we will be able to offer the Parliament the kind of transparency which the Committee seeks.

**Expenditure Impacts of Foot and Mouth Disease (FMD)**

As the Committee is aware, the substantive costs of the FMD outbreak – such as compensation costs for slaughtered animals and the costs of carcase disposal – were met entirely by the UK Exchequer and not from my Budget. In 2001-02 the Executive allocated a sum of £2m to match public donations to charitable organisations engaged with those affected by the FMD outbreak. This money was spent in full during 2001-02. A further £2m was allocated by the Executive to assist agriculture industry recovery. This sum was not used in 2001-02. I am considering carefully how this money should be targeted to best effect and hope to make an announcement shortly.

As a result of the Executive’s general response to the FMD outbreak we are confident that the main elements of the Dumfries and Galloway and Borders Recovery Plans were addressed. For the future, I expect that existing strategies will be capable of addressing longer term impacts on regional and sectoral economies. Consideration of any such impacts will be mainstreamed, for example, into the Executive’s Agriculture Strategy, Tourism Strategy, and the work of the Enterprise Networks and of VisitScotland.

My spending plans for 2003-04 contain no provision in respect of FMD.

The Committee also had concerns over technical issues such as the presentation of DEL and AME elements of the Budget and of the handling of capital charges. I have asked officials to consider how these issues might be better handled in future. I welcome the Committee’s views on such matters. In looking at Budget Documents to be presented to the Parliament we seek, wherever possible, to improve these in ways recommended by the Committee.

I am, of course, happy to discuss any of these 2002-03 issues when we meet on 16 April – although you may feel that the wide ranging agenda which you set out in respect of the 2003-04 process might be a more appropriate and profitable use of the time available. In any event, I look forward to the meeting.

ROSS FINNIE
Finance Committee

Stage 1 Guidance: Supplementary Note:

In the Stage 1 Guidance issued to committees in March, the Finance Committee reported a number of new features in the budget documentation had been agreed with the Executive. These are:

- an assessment for each portfolio of the scale of unallocated resources available in 2003-4, by distinguishing baseline expenditure from new spending proposals.

- an assessment of the extent of committed capital expenditure in the new budget, so that the amount available for new allocation is clear.

- a summary of the outputs expected from the new spending proposals.

It has not proved possible in practice to implement these changes in full for the 2003-4 Budget. The data on capital commitments will be provided shortly by separate cover to the Convenor from the Finance Minister. Operational budgets, however, are only examined in detail in the Spending Review years, and the information on new spending proposals will be provided for next year.

Between 2002-03 and 2003-04, committees are advised to regard the real terms growth figures in Table 0.2 of the AER as a broadly acceptable benchmark for the level of new expenditure as agreed in SR2000 (see attached table). Please note that the AER real terms figures for 2002-03 and 2003-04 have been deflated to 2000-01 prices and not as stated in the document to 2001-02 prices. This means that while comparisons between 2002-03 and 2003-04 are accurate, comparison with 2001-02 cannot be undertaken using the real terms tables in the AER.
Committees are further advised to invite their subject Ministers to report their plans for managing these budgetary changes, and their impact on service outputs in a briefing paper as part of their evidence in this year’s budgetary process.

Professor Arthur Midwinter, 5 April 2002

Real Growth in Total Managed Expenditure 2002-03 to 2003-04  
(2000-01 prices)

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<tr>
<td>AME RESERVE</td>
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<td><strong>Total</strong></td>
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STAGE 1 OF THE 2003-04 BUDGET PROCESS: NOTE FROM SCOTTISH EXECUTIVE FINANCE (SEF)

1. SEF officials met members of the Committee on 5 March to brief them informally on the 1st Stage of the 2002-03 Budget Process. During the course of the discussions Members raised a number of points on which officials offered to provide further information. This is provided below.

Agri-environment Schemes Payment Ceilings

2. The predecessor legislation to the EU Agenda 2000 Rural Development Regulation allowed (Article 5(3) of Council Regulation 2078/92) Member States to place a limit on the amount of aid which could be paid to an individual holding under Agri-environment schemes. It was the policy of successive administrations in Scotland to operate such a system of limits. The successor Rural Development Regulation does not contain a similar provision, so Member States no longer have a power to impose such limits.

3. In the negotiations on the Scotland Rural Development Plan EC officials made it clear that, as Agri-environment payments are compensation for income foregone and not a form of income support they should not, accordingly, be subject to limits. In discussion, the Department was, however, able to secure agreement to a mechanism by which Agri-environment payments are scaled back to 80% of their full value, when 100 hectares or more of inbye land, or 1000 hectares or more of moorland, are under Rural Stewardship Scheme management.

Rural Development and Rural Spending

4. The Cabinet Sub-Committee on Rural Development meets every quarter and its next meeting is in May 2002.

5. The Minister is committed to monitor outcomes from Executive spending in rural areas. Early evidence of this commitment is the response to part 2 of the RPIWG report recommendation to measure each of the indicators for every relevant milestone on a rural/urban basis and the decision that the overarching, strategic objectives agreed to evaluate the delivery of Smart Successful Scotland will be disaggregated on a similar basis.

“Uncommitted” Budget

6. In looking at what elements of the 2003-04 Budget are “committed” different considerations apply to different elements. Thus:

- All CAP Market Support spending is inescapable and it is not within the discretion of Ministers to avoid paying out these subsidies.
• In the DEL spending for a range of schemes approval of applications even at this stage will have implications for 2003-04 and beyond (especially in respect of Agri-environment and Farm Woodlands measures, where payments to participants are made for a number of years following their entry into the schemes).
• For such schemes management arrangements are such that new commitments to new participants are controlled in such a way as to ensure that the costs, in the current and future years, can be met from within the spending plans agreed for the measure.
• The LFASS is, of course, an annual payment scheme and in the strict legal sense there is no commitment to pay out any of the money included in Ministers’ spending plans for the scheme. However, it is clearly Ministers’ policy that such payments should be made.
• So, while there will, as of today, be elements of RAD scheme budgets for 2003-04 which are not yet committed in a legal or contractual sense, we would expect (assuming that Ministers wish to keep the schemes open) the 2003-04 budgets to be committed in full as we move through 2002-03 and into 2003-04.
• For spending on capital assets (in the case of the RAD budget mainly capital for the three Executive Agencies – SFPA, FRS and SASA – and the Scottish Agricultural College and Research Institutes) it is typical that “committed” elements would be regarded as spending on a project for which a contract had been signed. In practice, most of the modest RAD capital budget is not used for major projects where costs straddle more than one year. Rather, the capital spending tends to be mainly on scientific and other specialist equipment. It is unlikely therefore that any great proportion of RAD’s £6m or so of capital for 2003-04 is absolutely committed at this stage. Rather, we know that each of the bodies has its own plans for replacement of capital equipment and that these plans assume the availability of the sums allocated by Ministers.
• For the current consumption of the Agencies, SAC and the Research Institutes there is no “commitment” of resources beyond 2002-03 but, even if Ministers were to decide today that they no longer wished to fund any of these activities a serious practical consideration (leaving aside the policy implications) would be the costs of disengagement. Redundancy costs would, certainly in the first year, be greater than the cost of the ongoing activity.

In short, it is not clear what may be meant by “uncommitted” resources. Ministers have set out their spending proposals for 2003-04, reflecting their policy priorities. The Budget available is therefore committed to these priorities. Any different view of priorities would need to be influenced by the practical obstacles (certainly in the short term) in the way of stopping or reducing spending in one area, so as to increase spending in another.

SE Finance
2 April 2002
Background. The principal impetus for new public policies and projects affecting the Fishing Industry, over the next few years, will arise from the reform of the European Common Fisheries Policy (CFP). It is known that very substantial changes will be introduced in most aspects of the policy. These can be grouped into three general areas: the science base, the management of resources and the involvement of stakeholders in governance of the CFP. The Scottish Fleet will be directly affected across all three areas and whilst the outcome is likely to be favourable, in general, a difficult process of adjustment may accompany some of the innovations. At all events it is important that the legislative proposals for the new CFP, which will be published on 17th April and which will come into force during 2003, should be anticipated in the Executive’s budgetary arrangements.

In spite of the current round of decommissioning the Scottish Fishing Fleet remains one of the largest operating in European Union waters so the Scottish Parliament and the Executive should give a lead in shaping and implementing CFP reform. Although Fishing is a devolved subject, the Scottish Industry’s international relations are conducted through the UK government and it is a fact life that fishing has a low priority in UK politics. Indeed within the DEFRA strategic plan it is difficult to find any reference to the Fishing Industry at all. It is important therefore that Scotland’s political institutions should promote the Scottish Fishing interest with the utmost vigour throughout the forthcoming period of unprecedented change and opportunity.

Some of the main aspects of reform are summarised in the following paragraphs together with particular suggestions on how Scotland’s commitment to its Fishing Industry can be demonstrated in a practical way.
The Science Base. The current fashion of promoting “science based” industries has tended to disregard fishing despite its formidable scientific and technological credentials. The image of fisheries as an outmoded traditional industry is due, in part, to the tiny public commitment to the systematic exploration of the marine biosphere, even though it covers four fifths of the planet. Fisheries biology is only one part of marine science but it has traditionally been the most important part and this leading role seems set to continue. In an era of increased concern about food quality and safety consumers seek alternatives to protein derived from intensively-reared livestock. Seafood has been a natural beneficiary of this trend especially in view of its many health-giving qualities. The only substantial difficulty for the future will lie in meeting demand without endangering the source of supply.

Recognising this situation the European Commission will make specific proposals to improve the accuracy and timeliness of scientific advice so that commercial stocks may be managed at the optimum balance between biology and economics. Amongst other initiatives it will be proposed to establish a European Centre for Fisheries Research and Management. It would be highly appropriate if this institution could be based in Scotland. The necessary supporting infrastructure and investment incentives must be accompanied with a suitably vigorous campaign to attract this new European organisation. A budget commitment to this end should be given as soon as possible.

Management Measures. As well as increasing the intensity of scientific endeavour there will be significant changes in how scientific assessment is converted into management advice. Perhaps the most intriguing aspect of this will be the so-called ecosystem approach to fisheries management. Details are sketchy but it seems that there will be an attempt to construct a mathematical model that takes a holistic view of the ecosystem so that fish stocks can be managed with regard to the conservation needs of a wider range of marine life than commercial fish stocks alone. Preparations must be made to support the massive survey and data collection operation that such a project will require.

Fishermen are not new to survey work and many have been involved in a variety non-fishing charters. In the year to April 2002 the Scottish Executive made available £1m for a programme of research cruises to be jointly managed by a partnership of fishermen and scientists. This project was extremely successful and has added very substantially to the sum of practical knowledge on all the subjects investigated. It is strongly recommended that a similar but expanded programme should be put in place for financial year 2003-2004 to anticipate the survey and data collection requirements of the Ecosystem Approach to Fisheries Management.

It should be borne in mind that scientific research work is one of the few alternative activities, on which a fishing vessel can be appropriately employed. This consideration is relevant to the effort limitation proposals that are likely to be a significant theme in the reform package. Scotland has pre-empted this requirement with most of the capacity reduction target being met by the current decommissioning scheme. All the same it is possible that additional effort limitation may be demanded albeit on a short-term basis. In those circumstances the expanded research programme would make a virtue of necessity.
Governance of the CFP. A particularly satisfying aspect of the reform package will be the introduction of Regional Advisory Councils (RACs) to increase stakeholder involvement in the management of the main offshore fisheries in each of the EU’s Regional Seas. Although the principle has been conceded it will take time to work out the details with regard to scope, remit and membership of the RACs. Clearly the Parliament will wish to take an interest in these matters to ensure that Scotland’s interests are properly recognised in these important new structures but it is unlikely that any significant budgetary implications will arise.

There is a more urgent issue of governance concerning the Scottish Inshore Fishery. Since devolution this fishery has been the responsibility of the Scottish Executive. It seems likely that CFP reform will increase the Executive’s responsibility to include all vessels of all nations operating within 12 miles of the base line. The Inshore fishery to the West of Scotland is the most extensive in Europe and there are already a number of management, access and environmental difficulties within that area. If a wider responsibility for the zone between 6 and 12 miles is added then a more robust management regime will be required.

The Scottish Inshore Fisheries Advisory Group was set up to provide a forum for rehearsing the problems of the inshore fishery. It is now necessary to go further and to create an executive body to manage, actively, marine resources in the coastal margin. Optimising the economic benefit for local communities from their adjacent fisheries and marine resources, laying down fishing codes and access arrangements and co-existence with non-fishing marine operators requires a more active and more sensitive organisation than is currently available. There is little enthusiasm within the Scottish Industry for the English system of Sea Fisheries Committees but a national organisation covering the whole of the Scottish Inshore would be worthy of consideration.

Conclusion. This short note offers some informed speculation about some of the likely consequences of CFP reform. The reform package is likely to be much more substantial and may in the event be severely circumscribed by the EU Parliament and most particularly by the Council of Ministers. The important issue for Scotland is to ensure that no interests or opportunities go by default. Since the legislative proposals will be known in the next few days it would seem sensible to make budgetary provision for all the published obligations together with a contingency allowance for the kind of opportunities described in this note.