

# **AUDIT COMMITTEE**

Tuesday 16 May 2006

Session 2

£5.00

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## **AUDIT COMMITTEE**

### **8<sup>th</sup> Meeting 2006, Session 2**

#### **CONVENER**

\*Mr Brian Monteith (Mid Scotland and Fife) (Ind)

#### **DEPUTY CONVENER**

\*Mr Andrew Welsh (Angus) (SNP)

#### **COMMITTEE MEMBERS**

\*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

\*Mrs Mary Mulligan (Linlithgow) (Lab)

\*Eleanor Scott (Highlands and Islands) (Green)

\*Margaret Smith (Edinburgh West) (LD)

#### **COMMITTEE SUBSTITUTES**

Chris Ballance (South of Scotland) (Green)

Mr David Davidson (North East Scotland) (Con)

Marlyn Glen (North East Scotland) (Lab)

Mr John Swinney (North Tayside) (SNP)

\*attended

#### **THE FOLLOWING ALSO ATTENDED:**

Antony Clark (Audit Scotland)

#### **THE FOLLOWING GAVE EVIDENCE:**

Caroline Gardner (Audit Scotland)

Alastair MacNish (Accounts Commission)

David Pia (Audit Scotland)

Gordon Smail (Audit Scotland)

#### **CLERK TO THE COMMITTEE**

Shelagh McKinlay

#### **SENIOR ASSISTANT CLERK**

Joanna Hardy

#### **ASSISTANT CLERK**

Clare O'Neill

#### **LOCATION**

Committee Room 4



## Scottish Parliament

### Audit Committee

Tuesday 16 May 2006

[THE CONVENER *opened the meeting at 10:05*]

#### Items in Private

**The Convener (Mr Brian Monteith):** Good morning and welcome to the eighth meeting of the Audit Committee in 2006. I welcome the members of the Audit Scotland team, who are led by Caroline Gardner, my colleagues and any members of the press and public. We have a busy agenda today. I remind everybody to turn off their pagers and mobile phones. We have received apologies from Margaret Jamieson, who is giving evidence at another committee.

The first item on the agenda is to agree whether to take items 2 to 5 and 8 in private. Item 2 is to consider arrangements for the committee's inquiry into Inverness College; item 3 is to consider arrangements for the committee's inquiry into the national health service consultant contract; item 4 is to consider a draft report on waiting times in the NHS; item 5 is to consider the committee's draft annual report; and item 8 is to consider the committee's approach to the Auditor General for Scotland's report on the teaching profession. Do members agree to take those items in private?

**Members** *indicated agreement.*

10:07

*Meeting continued in private.*

10:59

*Meeting suspended.*

11:13

*Meeting continued in public.*

### Teaching Profession

**The Convener:** I bring the meeting to order and welcome members of the public and press back to the public part of the eighth meeting of the Audit Committee in 2006. I remind everyone to turn off their mobile phones and pagers so that they do not interfere with the public address system. We have a busy and interesting programme for the rest of the meeting. I welcome our witnesses for the next item, whom I will introduce formally when we reach it.

This item is a briefing from Audit Scotland on its report "A mid-term report: A first stage review of the cost and implementation of the teachers' agreement *A Teaching Profession for the 21<sup>st</sup> Century*", which is a mid-term report as opposed to a baseline report. Our witnesses for this item are an Audit Scotland team led by Caroline Gardner, the deputy auditor general.

**Caroline Gardner (Audit Scotland):** The joint report by the Auditor General for Scotland and the Accounts Commission on the implementation of the teachers agreement was published last week. The teachers agreement was the tripartite agreement reached in 2001 between the Scottish Executive, the Convention of Scottish Local Authorities and the teachers organisations following the publication in 2000 of the report of the committee of inquiry into professional conditions of service for teachers, which is commonly known as the McCrone report.

The teachers agreement set out to revitalise the teaching profession in Scotland through a number of different initiatives: a 23 per cent pay increase for all teachers; a simplified career and salary structure; the creation of a new status of chartered teacher; and a greater emphasis on continuing professional development. The agreement has benefited many classroom teachers, but challenges remain. I will outline for the committee at this stage the report's five main findings.

11:15

First, the teacher induction scheme has successfully addressed the weaknesses in the previous support and induction arrangements, and the quality and variety of the CPD that is available to teachers have also improved under the agreement. Before the agreement, the McCrone committee had noted that induction and support for newly qualified teachers were "little short of scandalous". Teachers were moving from school to school with little support and almost one in three was leaving the profession before they had effectively begun their career.

The agreement introduced a guaranteed one-year placement for all new teachers, with support from a more experienced teacher and dedicated time to develop their skills. That has led to improved entry rates from university into probation and increased retention rates during the probationer period. Probationers are now achieving full registration much more quickly than they did previously.

The agreement recognised that CPD is central to improving teaching practice and learning. The agreement introduced CPD plans agreed between teachers and their managers; the requirement for proper CPD records; and an additional 35 hours of contracted CPD each year. Teachers are generally positive about those changes, which they regard as relevant and helping them to improve their teaching and learning.

Secondly, the agreement has improved terms and conditions for classroom teachers, but it has contributed to increased workloads for head teachers. The McCrone committee recognised that competitive salaries were needed to recruit and retain high-quality graduates for the teaching profession. The pay increase of 23 per cent over three years has secured stable industrial relations and brought entry-level pay into line with average graduate starting pay. Satisfaction with pay is high among all teaching staff. At the same time, reductions in class contact time to provide classroom teachers with adequate opportunities for lesson preparation and marking have been achieved by recruiting an additional 1,753 teachers. The reduction in class contact time has generally been positive for classroom teachers, but it has contributed to an increased workload for head teachers.

Thirdly, more than 3,000 new support staff are now in place to reduce the administrative burden on teachers, but we found that the majority of teachers are not yet fully feeling the benefit of those appointments.

Fourthly, the introduction of the new four-tier career structure has been broadly positive in the primary sector, but it has reduced the number of opportunities available for career progression in the secondary sector by about 20 per cent. The chartered teacher scheme has not yet had the expected impact on the career structure for classroom teachers. Uptake of the scheme has been slow to date.

Overall, we found that the early good progress that has been made needs to be sustained and performance measurement arrangements need to be strengthened to demonstrate that value for money is being achieved for the £2.15 billion that has been invested so far. The agreement was designed to secure long-term change, not just for teachers but for Scotland as a whole. The

Executive needs to work with councils to ensure that the changes not only deliver better terms and conditions for teachers, which they are doing, but lead to pupils getting the most from their school education. To do that, we think that the Executive and the other parties to the agreement need to agree a comprehensive set of measures against which to assess the cost and impact of the agreement. That should include straightforward things such as the impact on educational attainment; improvements in classroom practice; the quality of educational leadership; workload and skill mix; workforce morale; and recruitment and retention within the profession.

That is an outline of the report's findings. As usual, we will do our best to answer any questions that the committee may have.

**The Convener:** Thank you for that briefing. I take this opportunity to welcome the Auditor General for Scotland to the meeting. He has been giving evidence to the Finance Committee. I thank him for managing to get here.

We can now ask questions of the Audit Scotland team who were responsible for the report. We will consider our reaction to the report later in the meeting. Do members have particular questions?

**Mr Andrew Welsh (Angus) (SNP):** I notice that a milestone for the recruitment of support staff was 70 per cent achieved but not completed. The recruitment was set to be completed by April 6. Do you know whether that has happened?

**Caroline Gardner:** Antony Clark will be able to give you more detail. That was the only one of the seven milestones that we found had not been hit. On the date on which we collected the evidence on which the report was based, that had not happened, but progress was being made. I am not sure whether we know any more than that.

**Antony Clark (Audit Scotland):** We are not in a position to confirm that the milestone has been reached. However, in the returns that we receive from local authorities, they predicted that they would be in a position to recruit the additional support staff who were required. We have not audited those figures.

**The Convener:** In paragraph 25 of the report, you say:

"Some local authorities have reported that they may find it difficult to achieve this milestone."

Do you think that those fears have been overcome?

**Antony Clark:** It is difficult for us to say, because we have not audited the extent to which local authorities have recruited the number of support staff by which they were shy of the target. I would not place too much emphasis on the fact

that some authorities reported that it might be difficult. Had we asked questions earlier in the implementation process, they might have said that other milestones would be difficult to reach.

**Mr Welsh:** If we assume that the milestone is reached, would that be of any help to head teachers, who seem to have extra burdens because of the system?

**Caroline Gardner:** The question of the impact on head teachers is complicated. We found that one of the reasons why classroom teachers were not necessarily feeling the full effects of additional support staff was that those staff were working on whole-school tasks, rather than supporting individual classroom teachers. We might expect that to reduce the impact on head teachers, even given the overall effect that we found. The impact on head teachers seems primarily to be the result of the reduction in class contact time for classroom teachers. It is difficult to unpick the underlying causes of that. We suspect that it results from the fact that more teachers are going straight through their probationary period and becoming fully qualified more quickly, so that fewer teachers are available in the supply pool to cover short-term absences. Head teachers have no option but to cover some of those absences. Support for teachers to meet the classroom contact targets is one of the areas in which we think that the Executive and its partners need to do more work in future.

**The Convener:** The report suggested that that might affect uptake of head teacher or deputy head teacher positions. Does that remain a worry?

**Antony Clark:** The evidence to date is largely anecdotal. We do not have concrete evidence that there is a long-term impact on applications for headships. If there is an issue, it is partly a consequence of the introduction of the new career structure, which means that some staff are employed on conserved salaries. Arguably, that is eroding the differential between their remuneration and that of deputy heads and heads.

**The Convener:** I am concerned that if the impact was more than anecdotal and became a serious issue, it might become necessary to increase the salaries of heads and deputy heads to attract more people into those positions, which would add to the overall cost of the McCrone settlement, or to put in place additional management, which would also add to costs. That point may be worthy of further exploration.

**Mrs Mary Mulligan (Linlithgow) (Lab):** I have a number of questions. I am a little puzzled that we have seen headlines that suggest that the report is in any way negative, when we can take out of it phrases such as “stable industrial relations”, “improvements in recruitment and retention”,

and better morale for teaching staff. If the settlement was not intended to achieve that, I do not know what it was intended to achieve. I will move on quickly to my questions.

My first question is about the increased workload for head teachers, which Caroline Gardner mentioned a couple of times in her brief presentation. To what extent is that reduced by the use of business managers? One complaint that is made to us frequently by head teachers is that they are being taken out of the education side of the job and are doing more administration. The use of business managers was intended to counter that problem.

My second question is on the new career structure, the introduction of which the report states

“has proved more challenging in the secondary sector.”

Is that because the secondary sector had a more graduated career progression that is more difficult to flatten? What are the reasons for that?

Thirdly, the report suggests that if uptake for the chartered teacher scheme had been as expected, the costs of the agreement would have increased. What are the future projections for the costs of that scheme?

My final question is more general. The changes under the McCrone agreement were meant to introduce more flexibility into the structure of the teaching profession so that it could respond to future needs. Given that rolls are decreasing in some areas and increasing in others—in West Lothian, school populations are increasing—will the agreement give us the kind of flexibility within the profession to allow us to respond more quickly to such changes?

**Caroline Gardner:** I should start off by saying that we always seek to get balanced coverage for our reports. Clearly, the way in which the media pick up our report is outwith our control, but I agree that the report identifies that the implementation of the agreement has been largely successful to date and that the challenges are in realising the wider benefits that were intended from the agreement.

I will answer the question on the chartered teacher scheme and I will ask Antony Clark to pick up the other points that were raised.

To date, take-up of the chartered teacher scheme has been lower than expected. That is for a range of reasons to do with the new structure of the profession and the fact that new teachers are markedly more enthusiastic about the scheme than longer-serving teachers have been. However, the analysis that we present shows that a number of teachers are now saying that they are interested in taking up the scheme in future. If that happens,

there will be a significant financial impact because teachers who successfully become chartered are entitled to a quite substantial additional salary increment that continues for the remainder of their career.

As well as planning for that likely take-up, schools and education authorities also need to work through what role chartered teachers are expected to play in their schools. The scheme is designed not to give teachers a different sort of job but to give them a status. People should now be starting to think about what contribution they expect those teachers to make to the life of their school and to the profession more widely.

In a sense, what I have just said goes some way towards answering the question whether the agreement will deliver a more flexible profession for the future. Chartered teachers do not have a standard role, but the scheme may offer scope for developing specialist roles that can reflect local needs or emerging needs as those become apparent. In that way, we may be able to ensure that teachers deliver what the education system and individual schools need as we move into the future and as the scheme works through.

Antony Clark will answer the questions on the workload of head teachers and the career structure.

**Antony Clark:** In our survey work, which we undertook with head teachers, deputies, classroom teachers and support staff, we received largely positive feedback from head teachers and deputies about the impact of support staff. Business managers appear to be making a difference in that they have removed some of the administrative and business activity burdens from head teachers. I think that we can be quite confident about that.

On the impact of the new career structure, it is right to point out that the previous secondary career structure was quite complicated as it had eight different layers. Gavin McCrone's committee identified that as a concern and proposed a streamlined five-tier structure. When the McCrone committee undertook research and consulted the profession on its proposed structure, it found a degree of dissatisfaction with the proposed loss of the old assistant principal teacher role. I think that some of the dissatisfaction that we found in our survey of secondary teachers was connected with the loss of that role, which had been quite well regarded by some within the teaching profession.

The issue is slightly complicated by the fact that two types of changes have been introduced. As well as the straightforward introduction of the new career structure, several local authorities have introduced a faculty model alongside that change. The faculty model was not part of the teachers agreement but was mentioned by the McCrone

committee as a possible way forward for providing fewer, better leaders who could work across a range of different disciplines. The way in which some authorities have approached that change has caused local difficulties.

**Eleanor Scott (Highlands and Islands) (Green):** I want to ask about something that has become a bit of a postbag issue in my area. It relates to the move that will happen in August to a maximum of 22.5 hours a week of classroom contact for teachers. To fund that move and to fund the teachers, the local authorities seem to have made cuts. The postbag issue for me is that, in some areas, visiting specialist teachers in primary schools, such as music and physical education teachers, have been cut to fund the measure. That brings me back to the wider picture and the perception among local authorities that the settlement was not fully funded, which is at variance with the Government's view that it was. Will you comment on that?

11:30

**Caroline Gardner:** The report tracks the amount of funding that the Executive provided and the amount that local authorities spent. We found that, overall, the two figures were close—the amount that the local authorities reported was about £34 million less than the £2.4 billion that the Executive planned to make available. However, one area of uncertainty is the extent to which councils were expected to contribute to the deal through efficiency savings, primarily from the impact of falling rolls. As the report states, we could not unpick the exact contribution that local authorities made to the overall cost. It is possible that, in some areas, the issue may be leading to the sort of tensions that Eleanor Scott describes. In many ways, the issue is part of the next-step work that the Executive, the employers and the teaching profession need to do.

**Antony Clark:** Her Majesty's Inspectorate of Education is undertaking evaluation work on the implementation of the teachers agreement and will visit schools throughout the summer. HMIE is due to publish its report in September or October. It may be better placed than we are to talk about the sort of postbag issues that Eleanor Scott raises.

**Eleanor Scott:** Might the issue impact more severely on rural areas, where the geography means that amalgamation of schools is not an option even if rolls fall?

**Caroline Gardner:** It is certainly possible that the measure may have had a different impact in different places. It was always part of the agreement that local authorities would make a contribution through efficiency savings but, obviously, the authorities' various starting points



may have made it easier or more difficult to generate the required efficiencies. We cannot go as far as to say that it would be more difficult for certain local authorities per se but, depending on the starting point and the amount of surplus capacity in schools, the scope for doing something about that is likely to have had an effect.

**Eleanor Scott:** Can the effects of the move to 22.5 hours be seen now, or will we be hit with problems when the schools go back after the summer?

**Caroline Gardner:** All the indications from the work that underpins the report are that people are planning well for that. A series of milestones has been passed in the right direction and progress has been made—it is not a falling-off-the-cliff target. However, that is not to say that tensions will not arise in some areas.

**The Convener:** While we are on the subject, I have a couple of comments on what has been said so far. Mary Mulligan talked about the balance in the report. Anyone who has read it will know that it contains positives and negatives. One of the positives on which I would like to comment as convener of the Audit Committee is the close match between the costing assumptions and the actual spend, which is explained in detail in exhibit 6. It is good news that the Education Department's estimates for the costs of such a large spending project were generally on target. The committee has experience of other departments' spending targets being largely or even wildly off target. The committee should acknowledge that success. However, exhibit 6 shows some variation between the estimates and the actual costs. For example, the difference in the figures on salary conservation perhaps requires further explanation.

To pick up on Eleanor Scott's point, it strikes me that the total underspend of about £35 million is pretty close to the £37 million of expected efficiency gains. From what I understand, it is not possible to pin down the costs in individual local authorities, so we cannot tell whether the efficiency gains were achieved or whether the amount that was not spent was simply because the local authorities did not make efficiency gains. Local authorities had their grant cut by £37 million. Can you give us more detail on that? Is there any relationship between the underspend and the fact that the efficiency gains were not achieved?

**Caroline Gardner:** We were not able to find any such relationship. We probed the area hard, particularly with the Executive, to try to understand how the cost estimates that were built up and the money that was spent during the implementation of the agreement fitted together. We considered the contributions that local authorities made and the efficiency savings that were assumed. Paragraphs 36 and 37 of our report show that we

were not able to come up with a definitive answer. The £34 million is a small percentage of the overall sum. We were not able to pin down the shifts in the costs as much as we would have liked.

**The Convener:** I acknowledge that the sum is a small proportion of £2.4 billion. My concern is more about the extent to which the other efficiency gains that are being talked about might be realised.

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** It is interesting that we have touched on the question of balance. The sentence in the report that neatly expresses that balance is:

"The Teachers' Agreement has brought about a number of benefits for the profession, but more work is required to demonstrate long-term outcomes and value for money."

Lengthy reports cannot always be summarised in such a way.

I will focus my questions on the two identified areas for improvement: demonstration of long-term outcomes and value for money. On outcomes, it has been suggested on a number of occasions—not just in recent weeks or months but going right back to when the agreement was first reached—that the agreement could or should have been used as a mechanism for driving forward reform. Was there, or is there, greater scope for that? Do you think that the outcome measures that your report said were absent but would be necessary in the future could act as drivers for reform?

The HMIE report will consider the wider areas of change that fall outwith the scope of the Audit Scotland report. What opportunities will there be for the work of Audit Scotland and the inspectorate to be drawn together, to give the Parliament and the public a rounded picture of what the agreement has secured?

**Caroline Gardner:** Now is the time to start concentrating on some of the wider measures of what the agreement was intended to achieve. There were two important aspects of the agreement's objectives. One, which relates to teachers' salary levels, has clearly been achieved and we are starting to see its impact, with the new teachers coming into the profession and the climate of stable industrial relations. The other relates to children's experience in the classroom and their educational opportunities. It is time to put in place better outcome measures for that.

A moment ago, we talked about the close management of costs for the initiative. The effort that has been put into ensuring that it is well managed has to an extent limited what it has been possible to do in relation to wider questions. We are looking not for heavy-handed, bean-counting measures of what is going on but for measures of

staff morale, which is one of the key areas that we considered; workload and skills mix; and recruitment and retention. Those things ought to be relatively straightforward to measure and can be matched with measures of attainment to give us a good picture of whether things are getting better or worse. Now is the time to address that.

You asked about the HMIE report. We have worked closely with the inspectorate over the past 18 months. We bring different skills and experience to the job. We are not education inspectors, so it would be hard for us to assess the difference in what is happening in the classroom. However, we have been able to apply some useful analytical skills to what has been spent and the way in which that process has been managed. HMIE's report is due out later this year and we hope that the two reports will complement each other and, if taken together, provide a rounded picture. It should be remembered that they are reporting before implementation has been completed—changes remain to be made in the future.

**Antony Clark:** We have had tentative discussions with HMIE about the possibility of holding a joint conference to bring both sets of findings together so that people can see both sides of the coin.

**Susan Deacon:** I turn to value for money. You have identified that in excess of £2 billion of additional resource has gone into education spend to support the implementation of the McCrone agreement. You mentioned the estimation process. On what basis was the initial estimate of costs reached and how was the envelope of resources to fund the agreement identified? Where have the resources come from and what has been the opportunity cost of the additional investment? Could the same have been achieved for less?

**Caroline Gardner:** Those are difficult questions for us to answer, especially the one about the opportunity cost. You would need to direct that question to the Executive if you want to explore the issue further.

In many ways, it is impossible to untangle value for money from the outcomes. The pay rise that teachers were awarded was significant, although it obviously included a catch-up element. If we want to assess whether the cost of that investment and the other changes that were made were worth it, we cannot disentangle that from consideration of whether pupils are having a better experience during their school lives and are coming out better equipped for their futures at the end of it. Such investment must be tied to clear measures of what we expect to improve. That is the bit of the jigsaw that we do not have yet.

**Eleanor Scott:** I want to go back to exhibit 6 on funding, which shows a close match between the Executive's costings and what the authorities spent. Did the authorities have to plunder any departments to make up a funding shortfall?

**Caroline Gardner:** There was always an assumption that local authorities would make some contribution themselves and that some efficiency savings would be made as a result of falling school rolls in many parts of Scotland. Antony Clark is better placed to answer on the detail of that.

**Antony Clark:** As Caroline Gardner says, the figures that we have cited were based on assumptions that, throughout Scotland, local authorities would put in £50 million over the three years of the agreement and that efficiency savings would be made. They also include what one might call funny money that the Executive has provided. The teachers agreement must be viewed as part of the wider process of improving education in Scotland. For example, money is available to deal with ill-discipline in schools and for curriculum development.

**The Convener:** If all members have asked their questions, I have a few to finish off. In your report, you say that the number of extra administrative and support staff who were recruited was 30 per cent short of the target and that the assumption that salary conservation costs—which I mentioned earlier—would fall out of the system within five years was an

“overly optimistic assessment as the financial returns from local authorities indicate that it is more likely that these costs will take 10 to 20 years to fall out of the system”.

That is quite different from the assumptions that were made. Can you throw any light on why there has been such a large shortfall in the employment of administrative and support staff and why the assessment of what would happen with salary conservation costs was so out of kilter with what is happening?

**Caroline Gardner:** I will answer the first question and Antony Clark will deal with the second. As you say, we identified a shortfall in achieving the target for the recruitment of support staff. That is continuing; the final milestone is due to be reached in August. We have identified three main reasons for that. The first is that it took some time to work out where support staff could best be used. Planning the tasks that they could do was a lengthy process. Secondly—and, in our view, rightly—some pilot initiatives were undertaken to ensure that the right staff were used for the right tasks. Those were evaluated before the initiative was rolled out more widely. Thirdly, consultation with the head teachers and teaching unions was important, but it took longer than expected to ensure that the fit of support staff in classrooms

was such that there were the expected benefits and that problems were not created in the classroom. Those are the reasons for the shortfall.

11:45

**The Convener:** They are not financial reasons.

**Caroline Gardner:** No, they are very much to do with ensuring that the approach is well implemented and that support staff are in the right places.

Antony Clark will respond to the point about salary conservation costs.

**Antony Clark:** The point has been made that the teachers agreement brought about a large-scale, complex process of change. Assumptions had to be made across a range of areas to determine the overall expenditure and the subheads within it. As the convener said, we point out in our report that the assumption about the speed at which salary conservation costs would fall out of the system appears to have been overly optimistic. Why that assumption was made is probably a question for the Executive.

**Mrs Mulligan:** Caroline Gardner talked about the recruitment of support staff. Was there an issue about the level of remuneration that was set for such staff?

**Caroline Gardner:** I do not think that the matter came up in our work.

**The Convener:** You said that the issue was not just financial measurement but measurement of staff morale, for example. To what extent could retrospective work be done? If the Executive takes up your recommendations, a number of measures will be brought in, but will that work have to start now—in other words, 2006 will be year zero—or can any matters be tracked back in time?

**Caroline Gardner:** There is a mixed picture. Some aspects would be difficult to track back. For example, workforce morale would be difficult to measure in retrospect. In other areas it might be possible to construct measures or proxies. For example, there could be more analysis of recruitment and retention, to put in place a comparative baseline for the future.

**The Convener:** I thank the team from Audit Scotland for giving us a briefing on the report. Under item 8 we will discuss the committee's response to the report. I am conscious that members of the press are present, so I should say that although that discussion will take place in private, we will ensure that our conclusions are communicated, so that members of the press can follow up their reports on today's meeting.

## Accounts Commission

11:47

**The Convener:** I welcome Alastair MacNish, who is a regular attendee at Audit Committee meetings. He is here to speak about the report "Overview of the local authority audits 2005". He is joined by Gordon Smail, who is senior manager of performance audit at Audit Scotland, and Bill Magee, who is secretary to the Audit Scotland board. David Pia and Caroline Gardner remain with us. Members have copies of the report. I invite Alastair MacNish to make an opening statement.

**Alastair MacNish (Accounts Commission):** This is the fifth and penultimate overview report during my time as chair of the Accounts Commission and it is the third report that we have shared with the Audit Committee.

Although there are major challenges ahead for local government, this is the most encouraging overview report in the five-year period. I will set out the positive aspects. There has been continuing sound financial stewardship across councils. Council tax collection rates are showing their sixth year-on-year improvement—collection rates are up to 93 per cent within the year and, for the first time, every council in Scotland maintained or improved its collection rate this year. There has been significant improvement in municipal waste recycling rates, although the amount of biodegradable waste that is being sent to Scottish landfill sites continues to be more than the Scottish Executive's target for 2006. Councils are providing greater flexibility in home care service provision, particularly in out-of-hours and weekend provision. Finally, after last year's problems, councils are now managing their reserves more transparently.

Despite those positives, local authorities still face three major challenges: the Scottish Executive's drive for public sector reform and modernisation; the pending loss of experienced councillors and senior officers in the next 12 months; and, at a time when central Government funding is levelling off, increased financial pressures such as pension liabilities and equal pay and single status costs. As a result, the commission requires local authorities to redouble their efforts with partner organisations to improve the quality of service provision and to minimise unnecessary bureaucracy; to make a commitment to better medium and long-term financial planning and the use of improved performance management information; and to set clearer strategic objectives and to match resources to local and national priorities.

I publicly congratulate local government members and officers in Scotland on their engagement with and commitment to the best-value audit process and on the openness and honesty with which each council has conducted its self-assessment appraisal. The entire public sector needs to recognise that engagement.

**The Convener:** Thank you very much.

You have painted a picture of improvement in many areas, which obviously we welcome. I point out that the committee's job is not to examine individual councils but to take an overview of local authorities in Scotland. In that respect, local authorities' ability to meet their pension commitments must remain a concern. How will they be able to respond to that challenge?

**Alastair MacNish:** Over the past two or three years, there has been a significant increase in councils' employer contributions to meet future pension commitments. As page 13 of the report shows, the liability increased from £1.9 billion in 2003-04 to £4.5 billion in 2004-05, partly because of the change in accounting rules under financial reporting standard 17. Local authorities have to tackle this issue. We have almost reached the end of the actuarial review of pension funds, and this summer Audit Scotland will produce an update of the situation.

The one plus is that each council is very much aware of the problem and has been making strides in dealing with it, particularly with regard to funded pension liabilities. However, police and fire services pension schemes, which are unfunded, pose a more difficult problem, because they have an immediate effect on local authorities' ability to increase spend in other areas.

**The Convener:** Paragraph 63 of the report says:

"A full valuation of each of the funds is expected to be reported in March 2006."

Can you shed any further light on the result of that valuation?

**Alastair MacNish:** We hope to publish a full report on all the valuations by July at the latest.

**Mr Welsh:** Your report states:

"Councils have some way to go to develop and implement systematic performance management of their services."

The report also states:

"Performance management is underdeveloped in most councils."

Given that performance measures were implemented some time ago, what is the extent of the problem? Why are councils not carrying out such management?

**Alastair MacNish:** The reason is partly historical, and it centres on the statutory performance indicators, which were never as good as they should have been in managing and commenting on performance. Instead of relying on SPIs, councils need to develop their own indicators that are based on the targets that they want to set and the outcomes that they want to achieve. Through the best-value audit process and, indeed, through the new modernised audit that has been introduced we are working closely with them to improve the situation.

The picture is mixed throughout Scotland. Nevertheless, you are right to suggest that performance management information is vital to local service delivery. That information needs to be improved; we have commented on that for some time. The individual best-value reports are helping dramatically, because each council has an implementation timescale to help the whole process.

**Mr Welsh:** You mentioned the potential loss of experienced councillors at the next election. Is an equal danger the loss of experienced staff? In many ways, officials are the bedrock of the system. Is the turnover of council officials a problem?

**Alastair MacNish:** I referred to elected members and officials. We have a serious problem, because we know that a considerable number of chief executives will stand down before 2007. Recruiting experienced people is an issue, particularly in a time of change because of the introduction of proportional representation, but it is a concern only because dramatic change will take place over 12 to 18 months. Councils are aware of that, but only time will tell. That is why it is important that councillors have proper training—the report highlights again the need for training on their scrutiny and other roles.

The same question applies to officers: where will the next breed come from? I thought that we could immediately replace all the old chief executives and town clerks. Some tried and failed to do that and some succeeded. Recruitment has always been an issue, and it is more difficult now because change is happening so quickly. We are concerned about the effect of that in 2007 to 2009.

**Mr Welsh:** Whence will come the solution—correct performance indicators that apply throughout the system—to the problems? What about the training of new officials and new councillors?

**Alastair MacNish:** We are working closely with the Society of Local Authority Chief Executives and Senior Managers and COSLA to develop such measures. Those organisations have been aware of the need for them for some time and we have

input into their development. The problem has not been solved yet; it needs to be tackled, and the organisations are very much aware of it. We will report further on that.

**Susan Deacon:** The committee recently spent time considering leadership in the public sector and reflecting on some of the opportunities that the Executive might have missed since devolution. What is being done in local government to develop leadership? I heard your response to Andrew Welsh, but the issue is bigger and more long term than simply plugging the gaps for a few chief executives. We are talking about building leadership capacity in local government to deal with the challenges that you have set out. Will you also be a wee bit more specific about the succession planning in local authorities and throughout the sector generally?

**Alastair MacNish:** I ask Caroline Gardner to answer your first question; I will attempt to talk about succession planning.

**Caroline Gardner:** We examined leadership development in local government as part of our report on leadership development in the Scottish public sector overall and we found encouraging developments. SOLACE is running courses for aspiring chief executives and aspiring service heads that seem successful in attracting the right group of people and giving them not only one-off input from the courses but continuing support from a network of peers and mentors who will help them to develop into those roles better. That is encouraging.

We found a good example in South Lanarkshire Council, which started with a best-value vision of what it wanted to achieve and rolled that all the way through development plans for members of staff and groups of staff with the right support. The plans focus not just on their role in the council but on their need to work in partnership with colleagues in the health board, in other parts of the public sector and in the voluntary sector. We identified that as good practice from which other councils could learn.

A gap probably still exists in having a structured process to give potential leaders throughout the public sector the opportunity to learn together early in their careers. We have a report on community planning that is due for publication relatively soon. Everything in it suggests that, in future, people will need much better experience of working with others from different professional and organisational backgrounds and of finding ways to solve local problems rather than sitting in their organisational bunkers. There is still a gap in developing such a structure to which all councils—along with the health service and the rest of the public sector—have access.

12:00

**Alastair MacNish:** Leadership's vital role has been mentioned. It is evident already from the best-value audits that clear and strong leadership at council member and officer levels leads to successful councils and that, where there is weakness in leadership, there are problems.

Some councils have made great strides in succession planning. However, speaking about officers rather than members, many are still not in a position to be clear about succession planning for the huge change, because it is such a dramatic change. Some councils will need to do much more work. I hate to say it, but the situation throughout Scotland is also affected by a pecking order in the wide salary ranges in the smaller and larger authorities.

**Susan Deacon:** You identify in the report the need for greater support and training for elected members

“to enable them to challenge officers.”

I guess that we could have an interesting conversation about the extent to which members need to challenge officers and the extent to which officers need to challenge members sometimes. However, to stick with the development of councillors—in particular, in their scrutiny role—will you comment on the shift that is taking place in several councils towards a cabinet-based system? That introduces another range of issues about elected members' scrutiny of their councillor colleagues within such a system. In some of the best-value reports I have read comments about that with reference to specific authorities, but where do you think the system is going in general?

**Alastair MacNish:** As you are aware, from 1999 to 2001 I was the chair of the leadership advisory panel, which considered the political make-up of council organisation throughout Scotland. Then, there was a move towards cabinet-type administrations. The panel chose to leave the matter flexible and to allow councils to have a cabinet-type organisation or a committee structure. That has been remarkably successful, in that councils have been able to live with different, competing interests.

However, back-bench members' scrutiny of administrations—rather than officers, although they are a part of it—has caused us concern over the period. Those members need to be able to do exactly what the Parliament's committees do with the Scottish Executive and challenge administrations forcibly in their scrutiny role. Every council now has an audit committee—that might not be rocket science, but it is a statement of fact. More and more of those audit committees are becoming genuine scrutiny committees in which back-bench members can challenge the leaders,

call them to account for policies that have been agreed and determine whether they are being implemented.

Progress is being made, but the report says that there is some way to go. We will encourage that progress. The points about the need for performance management information and scrutiny come out time and time again through the best-value audits. The new modernised audit might help scrutiny and councillors' ability to challenge administrations more readily. Time will tell whether that is successful.

**Susan Deacon:** What proportion of the 32 councils have moved to a cabinet system?

**Alastair MacNish:** A third, I think.

**David Pia (Audit Scotland):** It is around half.

**Alastair MacNish:** Do half have a cabinet system? It has moved on since I dealt with it—the proportion was a third straight away—and I think that the change to proportional representation might move it further down that road.

**Susan Deacon:** I have a final question on a different theme. I sense that the move to best-value audits has helped authorities and people like us who are in the business of examining reports such as "Overview of the local authority audits 2005" and trying to get a sense of qualitative and quantitative performance to develop an understanding of how councils are performing. However, I am concerned that it is often still hard for the general public to get a sense of how local authorities are performing across the board and that councils' material often—as is to be expected—focuses on the positives. Doing so is legitimate up to a point, but how council tax payers and electors can get a balanced picture of performance is an issue. Do you have any plans to develop the best-value audit process so that better ways are found to convey independent assessments of councils' performances to local people?

**Alastair MacNish:** I agree that the best-value audit process has been positive. Headlines that do not reflect the performance of every individual council can be taken from overview reports that comment broadly on the public sector and local government in particular. The great thing about best value is that one gets a warts-and-all report on a council and where people are doing good work. That takes us away from the approach in which a council is damned because of one bad area. Councils get credit for quality of provision.

You mentioned councils always focusing on the positives. We endeavour to ensure that a balance is struck and that the consumer's input and criticisms are reflected in what councils develop. Such an approach is part of the improvement that

is required of councils through best-value audits. We come up with recommendations. Administrations will always want to say what they are doing well rather than talk about what they are not doing so well, but councils' self-assessment analyses have been unbelievably honest about where they are failing, because they have used them as a tool to get their act together, move forward and improve service quality. If councils and the whole public sector use such an approach so that there is joined-up working, it will be the greatest plus that could ever be achieved in Scottish local government.

**The Convener:** I would like to follow up on what Susan Deacon asked about. You mentioned audit committees being created in every council. Do those committees scrutinise the work of the political leadership or the work of officials? I ask that question because this committee considers the work of accountable officers. We do not consider the work of ministers, so the political temperature is reduced, which contributes to a great deal of cross-party work being done to get to the bottom of difficulties. Do those audit committees work in the same way that the Scottish Parliament's Audit Committee works, or is there political scrutiny?

**Alastair MacNish:** There is a mixture of scrutiny. Some committees scrutinise both officers' and members' work, but probably the majority scrutinise the work of officers. I think that committees should scrutinise the work of both officers and members if they are to be effective, and quite a few do so. We highlight that approach in best-value reports and try to promote it in the medium and long term.

**Caroline Gardner:** In some councils, the audit committee will focus purely on the financial audit of the council and how resources are managed, and a separate scrutiny committee will deal with the political challenge. In other councils, the two functions are combined. We have not reached a view on whether one model is superior to the other—the issue so far seems to be much more about how the committees work in practice.

**Alastair MacNish:** More work needs to be done on audit and scrutiny roles—that issue arises in almost every best-value audit. Nevertheless, councils are going down a road that I welcome—long may they continue to do so. There is definite progress, which must be continued.

**The Convener:** There used to be annual publications on a range of issues such as the number of pupils in schools and refuse collections. I cannot remember what those publications were called, but they seem to have stopped. Does that reflect a change in the style of reporting?

**Alastair MacNish:** Those statutory performance indicators, of which we have about 60 or 70, are still published. We no longer publish them in individual pamphlets because that skewed their impact to an extent. The SPIs are still reflected in the overview report and they are still used in the best-value report. We publish them on the web, where anyone can see them, but they are no longer published in small pamphlets.

We believe that the overview report is far more important, albeit that, as the committee may recall, roads maintenance and other such issues were highlighted via the various SPI reports. However, councils now use the SPIs to a far greater extent in their own questioning of their progress against the various targets that they are trying to achieve. The SPIs also still form a major part of the overview report that is prepared by the controller of audit.

The SPIs need to be improved, but I am delighted to say that the Scottish Executive is now taking on board that work. In fact, I will attend a meeting straight after this about developing more significant performance indicators that each council in Scotland can use. That is not as easy to do as it sounds because, although many of the issues are fairly simple, coming up with an output-driven indicator that can be used across the board is often difficult.

**The Convener:** If the information is still available on the web, is there a news flash when it is refreshed each year?

**Alastair MacNish:** Yes. My colleagues from the press in the public gallery behind us—at least, I think that they are still behind us—still take great interest in the information at times.

**The Convener:** They are still behind you.

I am not sure whether other members have further questions but I have a few more, the first of which is on the issue of capital. Does the commission have any observations to make on the introduction of the prudential system? Paragraph 75 of the report states:

“A recurring feature in audit reports is slippage against capital programmes”.

Are the two issues related, or is that slippage due to the difficulties that are mentioned, such as land deals taking longer than normal?

**Alastair MacNish:** I say this slightly tongue in cheek, but in my 30 years I have not known a capital programme that did not slip.

**The Convener:** I am sorry, but I am shameless when I am in the chair.

**Alastair MacNish:** I will ask Gordon Smail to give a definitive answer.

**Gordon Smail (Audit Scotland):** Through the overview report, we are keen to draw together the common themes that have emerged from the individual local authority audits and to put those in the context of the changes that are happening in local government finance. From the trends that we have followed over the years, it is clear that capital expenditure is increasing and that councils are making use of the flexibility that is allowed under the new capital regime. Therefore, it is important that councils have indicators in place to ensure that their plans are affordable and that money will be available. That links closely with another point that we make in the report about the importance of long-term financial strategy. In other words, councils need to recognise the long-term effects of capital decisions that are made today.

To answer the question, although we do not have a detailed picture across the board, we have evidence about some of the interesting underlying questions. For example, by comparing capital budgets with actual capital spend for the year, we are able to see a picture of slippage in capital projects. We do not have the full information on those interesting underlying issues, but it is clear that there are questions over the capacity of both councils and the market. The report also highlights individual issues such as the time taken to complete land deals. In other words, capital projects that had been planned to go ahead have taken longer than was thought because of the legal requirements of selling and acquiring land.

**The Convener:** On a related point, paragraph 102 of the report states:

“Later this year, Audit Scotland will be following-up the Commission’s June 2002 report on private finance initiatives (PFI) in schools.”

When can we expect Audit Scotland to deliver that report?

The issue of PFI is related to my concern about capital spending under the prudential system. As Gordon Smail has pointed out, local authorities in general seem to be entering into considerable long-term investments and commitments, yet the evidence shows that some of them are not fully funded. Despite knowing that they will have a mortgage commitment to meet about which future councillors will need to make decisions, councils seem to be entering underfunded commitments just now because windows that would give them access to support from the Executive’s capital spend are closing. To me, that does not sound prudential. Do councils feel that they need to enter those commitments just now because they will otherwise miss those windows of opportunity?

**David Pia:** We are carrying out a study on developments in PFI and public-private partnership projects in relation to school buildings, but the report of that work will not be published

until about a year from now. At present, we are only just developing the project brief.

**The Convener:** So that will be published in 2007.

**David Pia:** Yes.

12:15

**Alastair MacNish:** I return to Gordon Smail's point that it is vital that we have clear strategic objectives that tie up national and local priorities with capital and revenue spend. That is one issue that we keep pushing through the best-value and statutory audits. We tell councils to ensure that, even if there is a window of opportunity now, all their financial statements tie up with the council's long-term spending plans. If they do not do that, a black hole will appear. I am confident that councils are well aware of that. As I said, the financial stewardship of councils is sound—long may that continue.

**Mrs Mulligan:** On councils' capital spend, have you considered the added value that can be brought to councils and the populations that they serve through planning gain that can be achieved by working with private developers? How do we recognise the advantages of making the public pound go further through that mechanism?

**Alastair MacNish:** Asset management is a vital issue in local government and the situation is improving year on year. The individual councils' best-value audits highlight the importance of asset management. Councils need to consider their assets and decide whether they are valuable or might be redirected in a partnership arrangement that would provide a gain to the council.

**David Pia:** We are considering including that topic in our future programme of studies, on which we will consult during the summer. The committee will have the opportunity to contribute its views on the subjects that it thinks that we should pick up. Asset management is one issue that requires a closer look than we have so far given it.

**Mrs Mulligan:** To be clear, might that include considering whether local authorities, in granting planning permission, engage with developers to gain infrastructure improvements to support their developments? That is not paid for out of the public purse, but it obviously benefits local communities. Is that the sort of issue that you may consider?

**David Pia:** In principle, yes. We may consider asset management planning, which is about how councils and other bodies approach the planning of the future use of assets. Obviously, that would incorporate the kind of issue that Mary Mulligan raises.

**The Convener:** I want to move on to councils' reserves, which Mr MacNish mentioned in his opening statement. Paragraph 85 of the report refers to

"Improved disclosure in the accounts",

which we all welcome. Will you explain what has brought about that improved disclosure? You go on to mention that £208 million, which was about 46 per cent of the general reserves, was

"earmarked for specific future purposes".

Are those funds earmarked because commitments have not yet been fulfilled but are held back? For instance, some councils have flood schemes to which they are committed and for which they hold funds back because the schemes have not been completed. Alternatively, are the earmarked funds reallocated from projects on which money was not spent and which no longer require funds?

**Gordon Smail:** Over the years, we have consistently raised concerns about the reporting of reserves. It is important to say that we do not question councils' right to have reserves or raise issues about the amount that they should hold in reserve, as that is clearly a local issue. However, we are keen to encourage councils to be more transparent and up-front about why they hold reserves and what they intend to do with them. Over the years, substantial amounts have been held in reserve. Last year's overview report contained a profile of the situation. Councils reacted well to the commission's recommendations to make that information available, as reported in the present report. That has been one of the drivers. The questions that individual councils have been asked about why they are holding money have led them to include more information in their accounts about that and about what they are intending to do. That has helped to move on the situation quite substantially.

You also raised the issue of earmarking. From the additional information that has been provided about reserves, we have tried to give an indication of just how much is being held as a contingency. Councils are big business and it is right that they hold money back for unforeseen circumstances. With the improved information that we have, we have been able to differentiate between the amounts that are held in contingency and those that are intended for a future purpose. Earmarking can apply to a range of things, such as identifying where the money to fund equal pay settlements and the like will come from. It has been helpful for us to get that information and to be able to put it in this year's report.

**The Convener:** I agree that there is greater transparency. It is far more useful for us to be able to see what reserves are available. I welcome that development.



You touched on the final issue that I wanted to raise—members may want to ask about other points. In your opening statement, you talked about challenges. I want to flag up the issues of free personal care, equal pay settlements—which you mentioned—and the future McCrone settlement challenges that will impact on costs for councils, such as increased uptake of chartered teacher status, which will put local authorities under greater funding pressure. The committee considered those issues earlier today. Are there patterns across local authorities of which we should take note at this point?

**Alastair MacNish:** Councils are aware of the significant impact that the issues that you mention will have on their future planning for spending. There is no doubt that single status agreements and, in particular, equal pay settlements will have an impact, and all the councils are working very hard on those issues. Councils that had made a formal offer to staff were able to include funding for such issues on their balance sheet as a contingency, but if a formal offer had not been made, it could not be included on the balance sheet as a liability. Councils are at different stages, but they are all tackling the issues. As far as we are aware, they are doing so reasonably well.

The resourcing of such commitments is a big issue. When we put them all together, they amount to large sums of money. Councils continue to raise the issue of funding, but I am not aware of any council that is not striving hard at the moment to meet its commitments, which are not long term, but short term. Some have already agreed settlements, but others have some way to go on that. I am optimistic about the fact that they know what the problem is. Some are a considerable way down the road towards solving it. Councils are not unaware of the issues and are working on them. Whether they can accommodate all of those matters in their funding for 2007 is another issue, which each council will have to deal with on its merits.

**The Convener:** A further question has occurred to me—if I am left in this seat too long, I think of more questions. You touched on the issue of collection of council tax. Over the past few years, councils have started to introduce a system of planning council tax rises over a three-year period, so that council tax payers have a better idea of what their commitments may be. Is there evidence so far of whether councils have been able to meet those projections? Are we able to say whether the approach has had an effect on collection rates because members of the public are able to predict more accurately what they are expected to pay in three years' time?

**Alastair MacNish:** I do not know the answer to the first part of your question, but an immense

amount of work has been put into increasing collection rates. Five years ago, collection rates were down at 80-odd per cent within the year. One could argue that councils get most of the remaining money in later years. We are now up to a collection rate of 93 per cent. You cannot imagine the input of local authority finance departments and other agencies that have striven to increase the collection rate percentage, year on year. They have increased it for the sixth year in a row. This year, every council in Scotland improved its collection rate, apart from Orkney Islands Council. However, that council has the highest rate of council tax collection in Scotland, and its rate fell only marginally this year. The councils should be given credit for working hard to improve on where they were.

Caroline Gardner might be able to help with your first question.

**Caroline Gardner:** We do not have systematic evidence about councils' projections, but we are considering the matter. Alastair MacNish referred to the modernised audit that is being rolled out for all 32 councils—the commission is responsible for auditing all of them. That audit will consider the issue of long-term financial planning, but it is too soon for us to answer the convener's question about that.

**The Convener:** I am encouraged that you are considering it.

**Eleanor Scott:** I have a wee question about the reference in paragraph 133 of the overview report to the money that councils provide to other organisations, such as voluntary organisations. There is a suggestion in paragraph 134 that councils need better information about what they get for that money. Is the Accounts Commission saying that a voluntary organisation should not get any money without there being something in the nature of a service-level agreement? Are there different levels of agreement with voluntary organisations such that some organisations contract to provide services and others just get a bit of a handout because what they do is a good thing?

**Alastair MacNish:** Obviously, there are different levels of contribution to the voluntary sector. Our concern about the matter was expressed in the recently published report "Following the Public Pound: A follow-up report". There was real concern about there being insufficient scrutiny of the fairly large amounts of money that councils hand out to third-party organisations. Councils require to manage and scrutinise such money properly. However, there are different levels of support. For example, local authorities have, rightly, always encouraged and given grants to small organisations throughout the voluntary sector. The councils get far more back compared

with what they put in because the organisations' work is largely voluntary. We are not suggesting that that is not proper, but there is a real issue in following the public pound, given the large amounts of money that go to third-party organisations such as trusts. It is important that local authorities ensure that their money is being spent properly and effectively to deliver services within their communities.

**The Convener:** Those are all our questions for today, Alastair. I thank you and your team for coming along and giving us the opportunity to put our questions. I am sure that the committee looks forward to your final appearance next year. If the rate of improvement that you reported continues, I am sure that we will have a pleasant meeting and that you will be able to leave on a high note.

**Alastair MacNish:** Thank you very much.

**The Convener:** That concludes item 7. We now move into private session for item 8.

12:27

*Meeting suspended until 12:30 and thereafter continued in private until 12:38.*

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