

FINANCE COMMITTEE

Tuesday 16 November 1999
(*Morning*)

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FINANCE COMMITTEE

8th Meeting

CONVENER :

*Mike Watson (Glasgow Cathcart) (Lab)

COMMITTEE MEMBERS :

*Mr David Davidson (North-East Scotland) (Con)

*Rhoda Grant (Highlands and Islands) (Lab)

*Mr Adam Ingram (South of Scotland) (SNP)

*George Lyon (Argyll and Bute) (LD)

*Mr Kenneth Macintosh (Eastwood) (Lab)

*Mr Keith Raffan (Mid Scotland and Fife) (LD)

Dr Richard Simpson (Ochil) (Lab)

*Mr John Swinney (North Tayside) (SNP)

*Elaine Thomson (Aberdeen North) (Lab)

Andrew Wilson (Central Scotland) (SNP)

*attended

WITNESSES :

Professor Brian Ashcroft (Director, Fraser of Allander Institute)

Stephen Boyle (Head of Business Economics, The Royal Bank of Scotland)

Robert Brown MSP (Scottish Parliamentary Corporate Body)

Stewart Gilfillan (Director of Corporate Services, Scottish Parliament)

Paul Grice (Clerk and Chief Executive, Scottish Parliament)

COMMITTEE CLERK :

Sarah Davidson

SENIOR ASSISTANT CLERK :

Callum Thomson

ASSISTANT CLERK :

Mark MacPherson

Scottish Parliament

Finance Committee

Tuesday 16 November 1999

(Morning)

[THE CONVENER *opened the meeting at 09:45*]

Scottish Parliamentary Corporate Body

The Convener (Mike Watson): Good morning. I call to order the eighth meeting of the Finance Committee. Members should ensure that all mobile phones are switched off and that all pagers are switched to vibrate.

This morning, I am pleased to welcome representatives of the Scottish Parliamentary Corporate Body: Robert Brown MSP, who is an appointed member of the body; Paul Grice, clerk and chief executive of the Scottish Parliament; and Stewart Gilfillan, director of corporate services in the Parliament.

I know that time is limited, gentlemen, and that you have already delayed a meeting of the SPCB this morning to be here, for which we are grateful. I understand that Robert Brown has an opening statement to make.

Robert Brown (Scottish Parliamentary Corporate Body): Thank you, convener. The SPCB is very glad of the opportunity to give evidence to the Finance Committee. It might be helpful if I start by reminding the committee of the constitution and role of the SPCB, which, unlike most parliamentary committees, is a creature of primary statute.

The SPCB consists of five members, four of whom have been elected by the Parliament under the chairmanship of the fifth member, the Presiding Officer. Although the four elected members are from the four main parties in the chamber, their job is not to represent those parties. The SPCB is the legal entity that represents the Parliament as a whole; it owns property, employs staff and can sue or be sued on behalf of the Parliament. Accordingly, SPCB members act as trustees of the Parliament and are responsible to it.

In short, the SPCB has the sole responsibility for ensuring that Parliament has the property, the staff and the services that it needs, subject only to the Parliament's ability to give special or general directions to the SPCB in the exercise of the body's functions.

The Finance Committee's remit is to consider and report on proposals for public expenditure, including spending by the SPCB. On that basis, the SPCB has agreed to make available to the committee and the Executive a provisional expenditure plan a month in advance of stage 1 of the budget process, and more detailed expenditure proposals a month in advance of stage 2. The body has also agreed that SPCB members and relevant staff should give evidence—I have drawn the short straw today.

I understand that those arrangements will be set out in a formal agreement between the SPCB and the committee. The SPCB takes the view that the Finance Committee's consideration of the budget would most usefully be centred on strategic issues and the main areas of expenditure, rather than on the smaller details, which are mainly matters for the SPCB itself.

Although the officials will deal with the detailed aspects of the figures, I will make a few comments to set those figures in context. First, the SPCB budget, even including Holyrood, forms a tiny part of the whole Scottish block—somewhere around half a per cent.

Secondly, as Sir David Steel made clear in October when he was explaining the budget figures, it is widely acknowledged that the original provision set by the UK Government in March 1998 was pretty much a guesstimate. At that point, there was not much to go on. Nothing remotely akin to the Scottish Parliament had previously been set up and no one knew how it would work or what it would cost to run. The SPCB believes that Scotland requires a Parliament that is properly resourced with services, property and staff, albeit that that is provided with due regard to economy.

Before the request for a more realistic provision went to the Parliament in October, a small subgroup, consisting of Andrew Welsh MSP and me, met officials to go through the figures in some detail; we then reported back to the SPCB. As a result, a number of areas such as travel arrangements and stationery requirements are being re-examined with a view to making efficiency savings. That should allow the SPCB scope for manoeuvre in carrying out its functions as required.

That is all I want to say by way of introduction, convener. Paul Grice will say a few words about the appropriate budgeting and monitoring arrangements and Stewart Gilfillan will deal with more detailed questions about the finances.

The Convener: Paul, I understand that you will speak about the supplementary estimate and next year's budget.

Paul Grice (Clerk and Chief Executive, Scottish Parliament): I am not sure whether you

would prefer to deal with the wider issues first, convener. I do not want to say too much; with the time available, I would probably prefer to take questions from the committee. Shall I just say a few words now?

The Convener: Please do.

Paul Grice: Members will know that the most immediate issue was the supplementary estimate for the current year. As Robert Brown said, that figure was set about 18 months ago, before the consultative steering group report and before the Scotland Act 1998 completed its parliamentary passage.

One of the main assumptions underlying that estimate was that the Parliament would not actually get into its stride until about the autumn of its first year—in other words, about now. As a result, it was very much a part-year budget. However, to everyone's pleasant surprise, the Parliament hit the ground running and was operating at full-tilt before the summer. One of the reasons why expenditure is higher in the current year is because the Parliament has done close to a full year's work.

Expenditure is also higher because a number of other assumptions did not hold true. The estimate did not take account of the CSG's recommendations about the structure of committees. Bearing both that and the exercise undertaken by Robert Brown and Andrew Welsh in mind, the SPCB bid for a supplementary estimate of just more than £5 million for the current year, which seems right in the circumstances.

Next year's provision was set out by the then Scottish Office and was more accurate for a full year. We have rolled forward the current year's estimates and also taken into account any exceptional items that we have identified, which gives us our budget of £40.4 million for 2000-01.

At the moment, we are living in an uncertain world. Although I believe that the Parliament is working effectively, we are still feeling our way, as committee members will acknowledge. There are still tremendous pressures across the whole organisation—on the committees, the official report, facilities management and even the Holyrood building. The problem is not just the cost of the building; the staff resource of getting it designed and specified properly is creating enormous pressure.

We are, rightly, the servants of the rest of the Parliament. If, for example, the Parliament decided to extend its hours or to allow the Parliament and committees to meet simultaneously, that would have significant resource implications to which the SPCB and I—as senior official—would have to respond. In such circumstances, budgeting is not a science. However, we apply it with rigour and

seek the best economy that we can.

I will leave my comments there. We would much prefer to answer the committee's questions.

The Convener: Our thanks to Paul Grice and Robert Brown. In light of your remarks, we appreciate that the budget was necessary for the Parliament's first full year in operation and we are aware of the stresses and strains at the moment. I echo your view that, as we complete our first six months, things are working reasonably smoothly.

Committee members will now ask questions. We did not vote on the supplementary estimates last week because we knew that you were coming to see us today and I invite questions either on that issue or on general SPCB issues.

Mr David Davidson (North-East Scotland)

(Con): First, I congratulate Paul Grice and his staff on struggling through in the face of adversity. We all appreciate that the Parliament's early start has caused difficulties.

When the Minister for Finance was here a few weeks ago, he talked about an additional supplementary in the spring. Will the SPCB be seeking something from that? Furthermore, will there be any difficulties with the potential move-out during the Church of Scotland general assembly?

Stewart Gilfillan (Director of Corporate Services, Scottish Parliament):

Although we will have to find extra resources for the move-out during the general assembly, those will largely be borne in the next financial year. Developments may occur between now and the spring supplementary being tabled; however, at the moment, we are reasonably confident that we will not need any more money in the current financial year.

Mr Keith Raffan (Mid Scotland and Fife) (LD):

I want to follow on from David Davidson's second point, although it was not the question that I was going to ask. When do you expect a decision to be made on whether we will be here, at the Royal High School of Edinburgh or somewhere else?

Paul Grice: The bureau has been considering that matter weekly—and is considering it again this afternoon—and has been narrowing down the options. A final decision will probably not be taken this afternoon, as we will have to investigate carefully the available options. However, there might be a final decision within two or three weeks.

Mr Raffan: Mr Grice said that we hit the ground running—perhaps it was more a case of running before we could walk. However, that is now history.

In the CSG report, committees were expected to meet once a fortnight, which was always

unrealistic. For example, the Social Inclusion, Housing and Voluntary Sector Committee, of which I am a member, is meeting twice this week. Committees are sharing clerks, who are under huge pressure. What steps are being taken to increase staff to ensure that Mr Brown's intentions are fulfilled and that committees are properly resourced?

Paul Grice: I am well aware of that issue from my attendance at the conveners group and from conversations with colleagues. Although I am very sensitive to those concerns and will respond to them, it is important that I do so across the organisation. It would be easy to throw another couple of clerks at the problem, if you will forgive the expression.

I will talk both to conveners and to the official report, clerking and other staff, build up a picture of where the pressure points are and submit a report to the SPCB. The solution might mean a step change in resources and involve a combination of staff and additional money. In the next two or three weeks, when I have built up that picture, I will take the matter to the conveners group.

We should remember that all committees are not the same. Although they are all under pressure, some are under the most intense pressure while others are just very busy. Any solution that we come up with needs to be sensitive to that and to understand where the knock-on pressures are. At the moment, the official report is perhaps under the most intense pressure. If putting more clerks into committees means that committees generate more work, that affects the official report and does not solve the problem.

I will take the matter to the conveners group and the SPCB and will invite that body to take a decision. In a sense, that comes back to David Davidson's point. The SPCB will need to assess any bid for additional resources against what is available. Although, like Stewart Gilfillan, I am reasonably confident that we can live with our budget this year, we need to consider the knock-on costs for next year.

Mr Raffan: This is a serious point. At Westminster—to use the big bogey word—select committees are separate from standing committees, which scrutinise legislation. Here, we have hybrid select and standing committees. Committees at Westminster are better resourced than ours and do not have the same constraints in terms of travelling outside. Do you agree that it is important that we do not suffer from such constraints?

Paul Grice: I agree.

Mr Raffan: To what extent is the Holyrood building over budget at the moment?

Paul Grice: The building is on programme and on budget.

Mr Raffan: So it is both on schedule and on budget.

Paul Grice: Yes. However, my points about pressures also apply there. Understandably, members have many and varied views on what we might do down in Holyrood and the SPCB has an enormously difficult task in reconciling all those demands. Although, at the moment, the project is on budget, I will not underestimate the difficulties of remaining in that position.

Mr Raffan: I have spoken to several architects who have said that with such a major project—comparable, for example, with the extension to the National Museum of Scotland—the gap between planning and completion is usually nine years. We are trying to complete the project in a third of that time. Is that wise?

Paul Grice: If you will forgive me, I think that that is a question for the politicians. Perhaps Robert would like to comment.

Robert Brown: The SPCB and the Parliament inherited the project from the then Scottish Office, so decisions such as the fast-track approach and the site itself were made by our predecessors. We have to work within those constraints, following Parliament's vote on the matter.

George Lyon (Argyll and Bute) (LD): As Keith Raffan has asked one of my questions, I will raise some other points. In his opening remarks, Mr Brown said that he and Andrew Welsh had carried out a review of a number of administration functions. There seems to be a pressure point on the administration side. For example, people in the allowances section have told me about a huge turnover in staff and a shortage of staff during the summer. Are some of those issues being addressed? Perhaps Robert can expand on his sub-group's findings.

10:00

Robert Brown: One of the difficulties was the open-ended nature of some of the budgetary provision. For example, stationery costs are met by the Parliament; they are not part of the office allowance in the normal way. That open-ended budget has gone far beyond what people had originally anticipated, because of the work load that MSPs have taken on.

Similarly, travel and accommodation costs are open-ended. They are obviously necessary to enable MSPs to live in Edinburgh, but it is difficult to predict the requirements for such allowances over a full budget period. We are examining such matters as whether there are ways of bulk buying Edinburgh to Glasgow rail tickets, but I will not go

into too much detail about those inquiries, as we are awaiting reports from officials. We need to see whether economies can be made without damaging the functions of the Parliament.

George Lyon: I take it that there is no thought of capping MSPs' allowances. If that happens, it would limit their ability to carry out their duties.

Robert Brown: Some allowances are capped, of course.

George Lyon: I am talking about capping general allowances.

Robert Brown: It is recognised that that is not possible. Nevertheless, there may be costs involved in occasional events in London, and the corporate body must take a view on the appropriateness of meeting such costs. We are trying to develop policy to enable us to deal with such demands in a reasonable and predictable fashion that will take account of budgetary implications. However, we do not intend to cap any allowances budgets.

George Lyon: I understand that there are problems with allowances staff. Are those problems being resolved?

Robert Brown: I am sorry. What in particular are you referring to?

George Lyon: I am referring to the number and retention of staff. I understand that there is a fair churn rate of staff not staying on, so that temporary staff are being used to get through the work load.

Paul Grice: You raise an important general point about behind-the-scenes administrative staff in procurement and in many other departments. We are not using a lot of temporary staff, but we are having problems attracting and retaining staff. That is a problem for the public sector in general, especially in Edinburgh, where the economy is buoyant.

We are considering ways of paying special allowances to certain staff, but members will appreciate that there are difficulties involved in paying too many such allowances across the board. That would hike up the entire pay bill, which has implications for the total budget.

Allowances, as members will know, is a high-pressure area. Day in, day out, allowances staff are trying to guide members through the maze of the allowances resolution and helping to resolve some difficult local issues. Having spoken to MSPs and to allowances staff, I am encouraged by the fact that, by and large, the process is successful. It usually comes to my notice only at times when the system is not working properly, but we are working hard to recruit in those areas and to provide senior management support. That is

particularly true in the allowances department, where Stewart Gilfillan and I personally become involved in many issues.

We recognise that, until we have been round the course once or twice, there will be so many novel and difficult issues that we will just have to work them through. However, I sense that we are making progress with allowances. As members are probably aware, an interim consideration of the scheme is currently under way, examining where there are rough edges that may be knocked off to make the operation easier for members and more straightforward for staff.

The Convener: I want to ask a brief follow-up question about staff retention. A month or so ago, a newspaper report claimed that there were real difficulties with security staff being trained and then leaving fairly quickly. The major reason for that, according to the article, was that the pay for security staff was extremely low. Is retention in that department still a problem and, regardless of whether it is, have pay levels been addressed as a result of that report?

Paul Grice: We have had quite a high turnover among the security staff. There could be many reasons for that—pay may be one of them. We pay the same rate as the Scottish Executive does, and the whole package is reasonably attractive, with a non-contributory pension and quite long holidays. I recognise the fact that security staff are paid relatively low wages—that is something that we must examine. However, we must bear in mind the pay structure across the whole organisation. It is dangerous to tackle one department in isolation; we must consider the situation in the round.

In collaboration with the unions, we are currently negotiating a settlement ahead of the corporate body issuing contracts to all staff. Those negotiations should enable us to discover whether there are any specific measures that could be introduced to solve the problem that has been highlighted. Although there has been quite a turnover, we are just about up to complement on the security staff, and the calibre and commitment of those staff remain extremely high.

Whenever we notice high staff turnover, we should examine the situation to find out what is behind it. The expectations of some staff may be a factor. When we set up the Parliament staff, we had a huge response and it is inevitable that to some extent staff numbers fall away in some jobs. Nevertheless, I am confident that, as we work with the unions to offer permanent contracts of employment, our staff turnover will settle down. Already, it seems to have hit a plateau over the past month.

Mr John Swinney (North Tayside) (SNP): I return to the point that Robert Brown made about

the fact that the proposed budget from the corporate body will come to the Finance Committee a month before stage 1. That is a welcome contribution to our debate. However, I am concerned about how we resolve the amounts in the budget for the Parliament. We have a fixed sum of money, from which the costs of the Parliament must be met, and I am concerned that we do not have the right mechanisms in place to give the Parliament what it wants. It would be easy for the Executive to apply pressure on the parliamentary budget to guarantee that it is contained within a certain limit.

The paper that you have circulated shows costs for the current year, for the next financial year and for the year after that. My interpretation of the figures is that you are assuming that we will reach our optimum level of operation in the next financial year and that that will then roll forward. I am concerned about that as a working assumption. I can understand why you have arrived at it, but I think that the committees will be determined to contribute arguments of substance to the formulation of policy within the Parliament. My experience so far leads me to believe that that function will undoubtedly be constrained by the resources that are available to the Scottish Parliament information centre, which is doing remarkably well given the limited resources at its disposal and the many calls on its time.

There ought to be a true and effective balance between the committee structure of the Parliament and its ability to compete in the debate with the Executive on the formulation of policy, given the resources that the Executive has at its disposal. However, I am concerned that the equipment and the process do not exist to enable Parliament to demand the resources that it requires.

Robert Brown: As I said, the corporate body has taken a fairly robust view on that. We formed an efficiency savings group to discover whether efficiencies could be made. The corporate body was determined that the purpose of that investigation was not to make cuts, but to find out how the Parliament's requirements could be met more effectively. Officials have advised us that the budget figures are robust and will stand up to those requirements.

If the Parliament requires additional input, because of more committee meetings outside Edinburgh, for example, those things must be paid for from the budget. There is already some provision for that but, if there are significant increases in demand, we must look at the figures again. At the moment, given the anticipated follow-through next year, the present view is that a supplementary estimate will probably not be required, but we reserve the right to come back to Parliament if there are changes in the light of

committee experience.

As Paul Grice said, the point that Keith Raffan made about additional support for committees is being taken on board. A report is coming back to the corporate body shortly on that matter and the committee of conveners will have an input into it. A decision will then be made on whether additional resources are required.

The only other thing that I want to point out is that the Parliament has been working even at semi-full stretch only since the end of August, when we resumed after the summer recess. Although we feel that the figures are firming up as we gain experience, there will still be an element of uncertainty about them until we have had the experience of a full year's running.

Mr Swinney: Do you think that the process is the right one to enable the Parliament and the corporate body to listen to all the views that are coming from the committees, away from the influence of party whips in the Parliament, and to take a dispassionate view about what Scottish democracy requires?

Robert Brown: The setting up of the committee of conveners is a further leg in the process to represent the committees' requirements. That is a useful development that will allow the corporate body to have an input into discussions of what the committee conveners require. It will allow a more clear-cut accounting of the costs and a clearer view of how they can be accommodated and whether new resources are required.

George Lyon: When the Parliament was set up, a number of commitments were made to the Scottish people. One of those was that committees and parliamentarians would engage with communities outwith Edinburgh. What resources are there in the budget to allow that to happen? Given some of the media reports on issues such as the cost of the Parliament, does the corporate body feel constrained from making decisions that are in the best interests of the Parliament?

Robert Brown: There is a balance to be struck at all times. Clearly, nobody wants the Parliament to run amok and have unnecessary expenditure all over the place. However, the corporate body is of the view that the Parliament should be properly resourced to do the kind of things that you have mentioned. I shall ask Paul to say a little more about how much has been allocated for those things.

Paul Grice: When a committee travels out of Edinburgh, a range of costs is incurred—John Swinney has done this, whereas I am simply talking about it, so he is perhaps better placed to advise us. Cash is needed to hire premises, procure broadcasting equipment and arrange

travel and subsistence. There are several pots for that in several different budgets, and Stewart will be able to give you more details about that.

There are also costs in terms of staff time, with staff being diverted from other jobs or working overtime. It is therefore not easy to give a precise answer. In the current year, however, there is quite generous provision, and the corporate body does not stand in the way of any committee that wants to meet outside Edinburgh. As you know, the Parliamentary Bureau has to approve every case, but it considers applications not from a value-for-money point of view, but from the angle of whether there are relevant local connections.

There is no overriding financial constraint for the current year. If a committee has a good reason for meeting outwith Edinburgh, that will be allowed. In setting our budget for next year, we will look at the experience of this year's visits. We have learned a tremendous amount from the Enterprise and Lifelong Learning Committee meeting in Inverness, and I hope that we will get a better idea of the likely pattern of remote meetings for next year.

We will also have a better idea of costs. The committee of conveners was willing to consider innovative and imaginative ways of meeting outside Edinburgh. There can be full-blown meetings, like the Enterprise and Lifelong Learning Committee meeting in Inverness, but other committees have also sent small groups or individual members to informal meetings. That is a very cost-effective way of taking committee work outside Edinburgh, and I hope that, before a cast-iron budget is set for next year, we will be able to draw on more experience of remote committee meetings. I hope—I think that the corporate body would agree—that there will not be an artificial financial constraint on that aspect of committee work, bearing in mind Robert Brown's point about the need to strike a balance.

10:15

The Convener: We must be aware of the time.

Rhoda Grant (Highlands and Islands) (Lab): It is important that committees go out and about, because many areas in Scotland do not have access to the Parliament. I represent the Highlands and Islands and I know that many people up there would like some kind of access. Holding a committee meeting in the area would help to provide that.

I understand what you are saying about sending a couple of members from a committee, but it is important that people in more distant areas get to see most of the committee. Is there any other way of making savings, perhaps by cutting the number of support staff who travel with the committee, to

allow that?

Robert Brown: That is one of the options that we have considered, but we must strike a balance. We want to ensure that the Parliament fulfils its functions adequately and that committees are able to travel when it is appropriate to do so. Several sources must contribute to the decision about appropriateness.

Stewart Gilfillan: If a committee decides to go out for an informal session, it does not need to take all the electronic equipment or the official reporters. If those two pieces of the jigsaw are not included, substantial savings can be made.

Rhoda Grant: Yes. It is important that people have access, although not necessarily to a formal committee meeting. They need access to the members of the committee to get their views across and to be involved in the decision-making process.

Paul Grice: On the other hand, it is sometimes appropriate for a committee to meet formally, and we are keen to encourage that. Again, the Enterprise and Lifelong Learning Committee was a good example. It was important for the committee to be seen to be doing it properly and formally.

I can assure members that whenever a committee meets outwith Edinburgh—in whatever form—we consider carefully every member of the support staff who goes. We ask tough questions; we hold discussions with the convener, through the clerk, to find out what is aspired to for the outside meeting. We think hard about the matter and we do not send people out of Edinburgh lightly. Apart from the cost, it is an extra drain on staff time. We are, however, willing and keen to facilitate outside meetings and we have evidence to suggest that that has already been a success.

The Convener: We have run out of time and that is a problem because at least three other members want to put questions. I want to ask a question about the supplementary estimate and the budget.

Robert Brown: We are happy to accommodate you.

The Convener: If members can put questions that relate specifically to the estimated budget, we could ask you back for a discussion on general issues another time.

Robert Brown: Absolutely.

The Convener: I have two points. My first point relates to the terms of the budget and to the figures that you supplied. The capital figures over the three years from 1999 to 2002—you say that most of that cost is due to the Holyrood project and the new building—amount to what has been reported as the total cost of the Holyrood build.

Does that mean that the cost of Holyrood is spread over those three years alone and will not spill over into 2002-03?

Paul Grice: I think that the cost does spill over slightly. However, the main costs, which the Executive has already undertaken to meet out of its existing programmes, would be for works around the parliamentary complex. There may be a slight carry over, but the cost is principally contained in those three years. It is not inconceivable that there will be some spill over, but we will be well over the hump, so to speak, so it should be modest.

Most of the expenditure that falls in 2002-03 will be for associated landscaping works. The Executive has made a commitment, working through the local authority, Historic Scotland and others, to meet that cost. We will have to keep it under careful review. If there was any suggestion of significant slippage into years beyond the planning horizon, we would give you as much warning as possible.

The Convener: I am encouraged that you are on course on both the budget and completion date.

My second point relates to Robert Brown's statement that the SPCB is happy to comment on strategic issues relating to areas of expenditure, but less happy to comment on the detail. The committee would want to reserve the right to decide on the level of detail. What did you have in mind? In the paper that you presented to us, general administration costs are broken down into several headings. I think that I am speaking on behalf of the committee when I say that we would consider those as legitimate areas on which to question you. Is that within the level of detail on which you thought that you would be questioned?

Robert Brown: The view is that this is a broad approach. We accept that it is not possible to make a precise division between detail and broad principles. It is not the desire of the corporate body to obstruct the Finance Committee in any way. Ask reasonable questions and we will give you reasonable answers.

The Convener: Fair enough.

Mr Davidson: Earlier on, Robert Brown said that the budget had been inherited. We have now heard that the budget needs a lot of tweaking and that many things should be taken into consideration. I appreciate that you are going for value for money. Following John Swinney's question, has the Executive given you any indication of constraints that it might place on the likely moneys that you may wish to bid for in the future?

Robert Brown: I do not think that there has

been any constraint on that. There has been no formal contact between the SPCB and the Executive on that matter. Obviously, there have been discussions between officials at various levels and Sir David Steel has had discussions with the Executive. Those discussions relate to the approach to the matter, rather than the detail. As far as I am aware—Paul might confirm this—no constraint has been imposed on the SPCB's budget.

Paul Grice: There is a danger of our straying into your territory. It is not for the Executive to dictate to the Parliament its level of resources. We well understand that we are all operating from a finite pool; every pound that we take, it cannot have and vice versa. One reason why the corporate body was particularly keen to come and talk to the Finance Committee is that, subject to your views, this is the proper dialogue—the corporate body, the committee and ultimately the Parliament. However, we must have due regard for programmes across Scotland.

I do not think that there is any sense in which the corporate body accepts that the Executive has any sort of veto over SPCB resources. Perhaps that answers John Swinney's point.

Mr Kenneth Macintosh (Eastwood) (Lab): I appreciate what are you saying about the fact that the original figure was very much a guesstimate, as Robert called it, and that you are working in unknown territory. I want to work out the range of that estimate. I assume that the capital is fairly predictable for all three years and that income will not change that much. Therefore, most of your guessing is on the current costs. According to the second table, staff pay, MSP accommodation and staff costs, and MSP pay are fixed, predictable costs. Am I wrong to assume that?

Robert Brown: Those costs are not totally fixed. The MSP accommodation costs are capped, but that does not mean that people will spend the full amount. There is an element of uncertainty there.

Mr Macintosh: What I mean is that those costs cannot rise, although they could fall. I am trying to get an idea of the amount by which the figures might vary. We are narrowing it down to the general administration costs and a couple of other areas. That is a budget block of roughly £10 million to £15 million, and so the budget might vary by a couple of million either way. Am I right in that assumption?

Robert Brown: The parliamentary office, accommodation and staff costs are not entirely capped—travel and living accommodation costs are not capped—so there is an element of uncertainty about that. Patterns are beginning to emerge as we go along. As you rightly say, general administration is the other element about

which there is uncertainty. That is the area relating to support structure and so on.

Mr Macintosh: I am trying to get a feel for the extent to which the total budget will vary. Will it vary by £10 million, £20 million or £2 million? The variation seems to be quite small. I know that a variation of £1 million or £2 million is quite large, but in the context of the overall budget, is that roughly the amount by which your figures might be out?

Stewart Gilfillan: I would think so. You said that you did not think that staff pay would vary. Staff pay is one of the areas that will vary if we respond to pressure for more staff to service committees. That is another area in which costs may rise. However, if you want me to say whether the variation in the budget is likely to be about £10 million, £5 million or £2 million, I would say that it would be about £2 million, or, I hope, much less.

Paul Grice: I want to add a rider to that last point. There are potentially major shocks. I do not want to over-egg the pudding, but for example, if there were simultaneous meetings of the Parliament and of committees, that would have a huge impact. Whereas I can and do ask staff to work longer hours, they cannot work in two places at once. That would have a tremendous impact on the official report and on the clerks.

Major decisions that could be taken by the bureau, for perfectly legitimate reasons, would have a significant cost impact. If that sort of decision were taken, I would not be confident that the budget variation would be £2 million—it could be more.

Although we have worked hard on the budgets, there are certain decisions outwith the gift of the corporate body and the officials, to which we would have to respond. That would not be a question of an odd extra person here or there. It would require significant enhancements of the teams. If that is what the Parliament decides it wants, we are duty bound to respond.

Aside from that, I think that Stewart is right. However, I would not want the committee to leave with an overly confident impression.

Mr Raffan: To return to the move next May, can you tell us the time scale and the likely range of the cost? I do not want to pursue the matter too far, because I am on the bureau, but can you give us an idea of the range?

Paul Grice: It will probably take three weeks. It partly depends on the contract that we make with the company that dismantles the equipment in the Assembly Hall. The faster we want the company to do it, the more it is likely to charge us—there is a certain trade-off. I think that we are talking about a few hundred thousand pounds, rather than

millions.

We will ask the bureau to take many decisions about the level of service—broadcasting or official report and so on—which would have a significant impact on the cost. We could keep it relatively modest, but the judgment might be that if we are going outside Edinburgh, we should operate a similar service to the one that we have here. It may be that people feel that they can survive on the road with limited resources. There are one or two critical decisions that the bureau will be invited to make, which will have a significant impact on costs. I am sorry that I cannot be more precise. In a couple of weeks we might have clearer idea.

Mr Raffan: What about—

The Convener: Sorry Keith, but I must cap that contribution.

Mr Swinney: I want to return to the point that I made earlier. Robert Brown said that the corporate body could not believe that the Executive had a veto on the corporate body's budget. Does the corporate body believe that the Executive has a veto on the formulation of its budget? For example, it is quite conceivable that the demands might increase and that the current costs could increase by £2 million to £4 million on a running basis. Is the corporate body able to say, "That is what Parliament wants and that is what Parliament will get"? What are the constraints on that?

Robert Brown: I do not think that there are constraints of that sort on the corporate body. Ultimately, the corporate body is responsible to Parliament for the exercise of its functions. The Parliament can require the corporate body to spend £5 million extra to do certain things. Backed by—if I may say so—the robust view of the Finance Committee, which is normally expected to be on the cheeseparing end of the scale, the corporate body takes the view that the Parliament's function should be properly supported. That is how we approach business, with, at the same time, a due regard for economy and efficiency.

The Convener: Thank you, gentlemen. We overran the scheduled time slightly. It is clear from the number of issues that have arisen that we would like to see you again, perhaps in a more general capacity. Before I close this part of the meeting, I thank you for your attendance.

Will you let us have a draft of an agreement between the SPCB and the Finance Committee for us to consider? That will allow us to set out the method under which we will operate in future.

Robert Brown: That is currently being prepared.

The Convener: We look forward to receiving it.

George Lyon: Will you allow the committee to consider the efficiency report, once it is complete, so that we can see whether we are getting value for money?

10:30

The Convener: What is the status of that report?

Paul Grice: It is a series of reports.

Robert Brown: Yes, that is correct.

Paul Grice: May I write to the convener with a summary of the conclusions? The efficiency report is not a single document—it is an on-going process that examines all sorts of areas. If the committee would find it helpful, I am sure that we could pull together a summary of conclusions, to give you an idea of the areas that the corporate body is examining and where it thinks economies might be made. Would that be helpful? As I said, it is not a report as such—it is an on-going process of challenge and scrutiny.

George Lyon: It is important for us to see it, so that we can judge value for money.

The Convener: I am sure that a summary would be helpful. We look forward to receiving it and to seeing you again at some time in the not too distant future.

A number of members feel that we should have had a longer session on that subject. However, the session was tight because the SPCB meets at 10 o'clock every Tuesday and had delayed the start of its meeting today to accommodate this evidence session. If we want to meet with the SPCB again, we may have to consider changing either our meeting or the SPCB's meeting, to allow us a longer run.

I suggest that we do not discuss the matter further now and that we suspend the meeting for some 15 minutes. Coffee is about to be served and the evidence from Stephen Boyle and Brian Ashcroft is not due to start until 10.45 am. Therefore, I suggest that we suspend the meeting and resume at 10.45 am.

10:32

Meeting suspended.

10:48

On resuming—

Expenditure Plans (2000-01)

The Convener: On behalf of members, I welcome again to the committee Professor Brian Ashcroft and Stephen Boyle, who made important

contributions to our briefing session in August. It is nice to see you again and I thank you for making time to see us. Both of you are going to make presentations, which I hope will enable the committee to ask more informed questions of the Minister for Finance and his civil servants. I hand over to Professor Ashcroft, who is going to start.

Professor Brian Ashcroft (Director, Fraser of Allander Institute): Thank you. We greatly appreciate the opportunity to give evidence to the committee. I say that on Stephen Boyle's behalf as well as my own. Members will appreciate that we have not had much time to put the presentation together, as our thoughts are still evolving. We hope to write an article to appear in our "Quarterly Economic Commentary" in December, which will give a fuller analysis of the planned changes. Today, we will try to give a flavour of them.

Stephen and I have decided to organise our evidence as follows. I will give my view of the level 1 data. Stephen will then examine the details of the level 2 data. A handout including graphs and my speaking notes will be circulated to members before the end of the meeting.

Figure 1 shows the budget baseline changes for the period 1999-2000 to 2001-02. The graph compares the situation before and after the announcement of expenditure changes in October. The figures are adjusted for inflation, so they reflect real spending. As far as I can detect, the figures after the announcement are somewhat higher than the figures before due to what the Scottish Executive calls "flexibility and transfers".

The graph refers to planned expenditure. Therefore, as one would expect, planned expenditure before and after the announcement track each other from 1994-95 to 1998-99, but thereafter diverge. Specifically, the higher figures after the announcement appear to be due to the carrying forward of underspent moneys into the planning period 1999-2000 to 2001-02. The new total for 1999-2000 is £309 million greater at constant prices than under previous plans.

In his speech on 6 October, the Minister for Finance mentioned the transfer of working capital surpluses from national health service trusts to current expenditure. I am not certain about all the aspects of that and I was unable to get clarification from the Scottish Executive finance department yesterday, but I will pursue that point.

For 2000-01, the figures are almost identical to those under the previous plan. There is therefore little change overall, but some change this year.

I move now to figure 2.

The Convener: Would you prefer to complete your presentation and take questions afterwards, or take questions as we go?

Professor Ashcroft: I do not mind. What is the convention of the committee?

The Convener: There is no convention, so we will proceed in whichever way is most comfortable for you.

Professor Ashcroft: In that case, I will complete the presentation and take questions afterwards.

Figure 2 examines the change in real level 1 planned expenditure for the period 1998-99 to 2001-02, comparing the plans before the minister's announcement, which were largely as outlined in the final departmental Scottish Office report, "Serving Scotland's Needs", published in March this year, with the new plans announced by the minister on 6 October. A positive number, therefore, indicates that, under the new plans, spending on programmes will increase by more or will decrease by less during the period than was originally outlined in "Serving Scotland's Needs".

Against that background, it can be seen that the total budget is almost static, as one would expect. There is a small increase of £13 million at constant prices. At programme level, the major increases in planned level 1 expenditure are in spending on children and central Government education, which is up £28 million in real terms; transport and the environment, up £23 million in real terms; enterprise and lifelong learning, up £16 million in real terms and outlays on the Scottish Parliament, which are up £15 million.

The major decreases are in expenditure on communities programmes, down £35 million in real terms—I will come back to that—and in the unallocated capital modernisation fund, down £26 million in real terms. However, all is not as it seems. Although the graph shows a fall in the communities budget in real terms of £35 million compared with previous plans, the decrease may only appear to be such.

In fact, as the minister outlined in his speech on 6 October, the Executive has decided to forgo making early repayments of Scottish Homes debt. That will lower current outlays, but will not lower current expenditure on housing under the programme. The Executive's decision to reduce debt repayments will allow money to be reallocated to spending on housing. In a sense, therefore, the decline in the communities budget hides an increase in expenditure over the planning period.

More money will have to be found in future, however, to repay the debt, or future spending on housing will be lower. On 6 October, the minister noted also that the freeing up of surplus working capital by NHS trusts would reduce the published figures for spending on housing, but not the investment in housing. I am not clear why that

should be the case. I am trying to understand.

The overall picture, therefore, is that there is not a great deal of change, but that money is being reallocated under the new plans to children and central Government education, transport and the environment and enterprise and lifelong learning.

Figure 3 does not compare planned expenditure before and after the announcement, but outlines the absolute change in real planned expenditure. The figure shows that the total budget is projected to rise by £380 million in real terms in the period 1999 to 2001 to 2001-02. Within that budget, the programme that will enjoy the greatest increase in spending is health, where expenditure is up £209 million in real terms. Expenditure on rural affairs will increase by £56 million, on children and central Government education by £54 million, on communities by £39 million in real terms and on enterprise and lifelong learning by £33 million.

The programmes that experience a real fall in their budgets in the period 1999 to 2001 to 2001-02 are justice, with a fall of £51 million, Scottish Executive administration, where there is a drop of £20 million, EU structural funds, down £12 million, and transport and the environment, down £11 million.

Another way of looking at the changes is to express them as a percentage of the base figure spent per programme. A lot of money is already being spent on the health service. We can see from figure 4 the percentage change in spending by programme over the period 1999-2000 and 2001-02, at 1998-99 prices.

11:00

The figures show a couple of anomalies. Forestry enjoys the biggest increase—67 per cent over the two-year period. However, that, in part, reflects its transfer to the Scottish Parliament. In addition, Scottish Executive associated departments have an increase of 64 per cent. Looking at the mainstream programmes, we can see that the children and central Government education programme experiences a real increase over the period of 17 per cent, rural affairs increases by 11 per cent and capital expenditure for local authorities increases by 8 per cent. Only two programmes have a significant decrease—spending on the Crown Office decreases by 13 per cent and Scottish Executive administration falls by 12 per cent.

I will close by examining the importance of the planned changes to the overall budget. We know that the programmes vary significantly in the scale of expenditure, so that health, which is one of the major programmes, has a significant expenditure.

Figure 5 identifies the share of the total budget

change accounted for by the planned changes in each programme. It can be seen clearly from figure 5 that the health budget enjoys by far and away the greatest share of the increased budget. The budget increases by £390 million between 1999 and 2001-02 and the health service enjoys a large share—almost half—of that increase. Fifteen per cent of the increase goes to rural affairs, 14 per cent goes to the children and central Government education programme, 10 per cent goes to communities and 9 per cent of the overall budget change goes to enterprise and lifelong learning. The fall in real expenditure on justice is about 13 per cent and the Scottish Executive administration decrease represents about 5 per cent of the total budget change.

The graphs are an analysis of the bald figures of level 1 expenditures, comparing before and after plans and comparing the new plans—the change from this year to 2001-02. Stephen Boyle will speak about the level 2 expenditure.

The Convener: Stephen, just before you start, it would be helpful if we could ask Brian some questions about his presentation.

Mr Raffan: In your article in the Fraser of Allander "Quarterly Economic Commentary" in September, you made a point about how the Government was not in keeping with its priorities in terms of the expenditures on industry, enterprise and training. You said:

"It is difficult to resist the conclusion that the industry, enterprise and training budget has had to bear a large part of the burden of the set-up costs of the Scottish Parliament."

How would you revise your comments?

Professor Ashcroft: There is some truth in my statement. It partly refers to level 2 expenditure, which Stephen is going to talk about. While I do not want to pre-empt what he wants to say, the level 2 figures show that, in money terms, there is a drop in spending on Scottish Enterprise in 1999, from £400 million to £376 million. In cash terms, spending picks up again to £432 million. That spending is still there, for the present year.

Mr Raffan: However, you went on to make the point that it was the type of spending in that area that was not in keeping with the Government's priorities.

Professor Ashcroft: It seemed to me that everyone else is tending to move away from cash subsidisation to investment—to softer forms of assistance to promote competitiveness and to stimulate innovation, where Scotland has a real problem.

At that time, the Scottish Office was spending about £10 million a year on promoting innovation. That has been cut to about £5 million. On the level

2 figures it is hard to identify what the spending on innovation is because it is not disaggregated enough.

Mr Raffan: Last week, the Chancellor of the Exchequer made an announcement about entrepreneurship. How does that affect us?

Professor Ashcroft: I am not clear about how it affects us. It will affect us only in terms of any increased spending that might feed through.

Mr Raffan: How might that happen?

Professor Ashcroft: I am not sure. Could you remind me of the specifics of the chancellor's proposal?

Mr Raffan: He made various announcements that glamorously described ways of encouraging entrepreneurship.

Professor Ashcroft: The problem is that our spending is determined by the allocation to Scotland, which is driven by the Barnett formula. That applies to changes in funding to comparable programmes in England and Wales. Parliament decides on the allocation of the block that is given to Scotland and can spend as much on enterprise as it likes.

Mr Swinney: Figure 1 illustrates the before and after situations and clearly shows an expenditure bulge in 1999-2000. The Administration has given commitments to additional real expenditure in certain policy areas, particularly in relation to education. If I understand this graph correctly, you are saying that such investment would be possible in 1999-2000, because of the expenditure bulge, but might not be possible in subsequent years, unless money is taken from other budget headings.

Professor Ashcroft: The position will be unchanged, more or less, by the end of this period. As far as I understand it, the bulge in 1999-2000 reflects the carry-forward of underspend in previous years. In one sense, it could be argued that that is not a real increase and that an examination of the outturns would show a different situation: there would be a dip in one year and an increase in the next.

The total budget, compared with previous plans, hardly changes: it is about £13 million. The increased expenditure that is available for some of those programmes comes from elsewhere in the budget. However, the reallocation is only short term. For example, funds have been reallocated from non-productive expenditure, such as paying debts, to productive expenditure on housing, but those debts will have to be paid at some point.

Mr Swinney: So we are not comparing apples with apples, but plans with outcome.

Professor Ashcroft: We are comparing plans,

which is a problem.

Mr Swinney: It appears to me that the minister is using outturn to inform his 1999-2000 figures.

Professor Ashcroft: That is true, and we do not have the outturn figures before us.

Mr Swinney: So we are not considering plans only, but plans and an outturn.

Professor Ashcroft: The figures that we were given were planned figures. I have no figures for last year's outturn, but it seems that there was an underspend that can be carried forward.

George Lyon: I want to follow up what John Swinney was saying about identifying the underspend in previous years. In previous years, was the underspend claimed by Westminster?

Professor Ashcroft: I am not certain, but I think the Treasury rules were that the underspend could be claimed back. It was not carried forward within the Scottish Office budget—there was a new playing field next year. Given the constitutional arrangements now, the Scottish Parliament can transfer between heads and transfer between time.

George Lyon: I am sure the Minister for Finance said that this was an accumulation of underspend over the previous two or three years, certainly on the health service side.

Professor Ashcroft: In his speech on 6 October, the minister said:

"The new arrangements for end-year flexibility, introduced by the Chancellor of the Exchequer, have enabled us to carry forward significantly more money from last year to this and subsequent years."—[*Official Report*, 6 October 1999; Vol 2, c 1030.]

That is clearly a new arrangement. It appears that it is a consequence of the Scottish Parliament. I am not sure that those changes apply in England.

George Lyon: Wherever this money was taken from, was it a previous accumulation? At the end of each outturn, if there was an underspend was it taken back to Westminster?

Professor Ashcroft: My feeling is that it would probably have been taken back and that the accumulation is from the first year of the comprehensive spending review.

George Lyon: So it is a one-off?

Professor Ashcroft: That is my feeling, but I do not know. It would be helpful if we had outturn figures as well as planned figures, for the reason that one can get a better understanding of the disposition of expenditures against plans.

The Convener: As there are no more questions, Stephen Boyle can now make his presentation.

Stephen Boyle (Head of Business

Economics, Royal Bank of Scotland): As Brian mentioned, I will focus on the more detailed level 2 data. I will highlight the key changes those data indicate in the Executive's spending plans. I will compare the end year of 2001-02 with the last full outturn year, which was 1998-99.

I have had to take a slightly different approach from the one taken by Brian Ashcroft. I do not have an equivalent set of before figures from "Serving Scotland's Needs", so it is difficult to do a before and after comparison. I have also dealt with a different period from the one Brian covered, because I will compare the final year of this spending programme with the last year before the Parliament came into existence.

I will address four points. First, I will explain my understanding of the differences between the level 1 and level 2 data. Secondly, I will outline the approach that I have taken to analysing the data. Thirdly, I will consider where the principal changes have occurred—I will say more about what I mean by principal changes later. Finally, I will comment on lessons I think we have learned in the past couple of days about the way this information and the manner in which it is provided may affect the budget process in future.

What are the differences between level 1 and level 2 data? An obvious difference is that the level 1 data, which Brian commented on, have 19 separate headings whereas the level 2 data have 70 separate headings. On the face of it, considerably more detail is available in the level 2 data than is the case with level 1 data. However, there remains a considerable degree of aggregation at level 2. Health spending and local government spending together account for 60 per cent of the total. Even within the health total, one line accounts for about £4.5 billion. Therefore, while we have more information than is available at level 1, much more could still be revealed.

As we have additional information at level 2, it permits a more detailed analysis of the changes between the major budget headings. It also allows us to undertake some analysis, which I think members were moving towards in their questions to Brian Ashcroft, of the reallocation of spending within the major headings. For example, it allows us to comment on how moneys may be reallocated within the education heading, between student support and further and higher education.

Level 2 data do not allow us to undertake analyses within those headings. For example, if we wanted to understand what was happening within further education, it would not be possible to tell from these data how moneys have been allocated within the FE heading. If we are interested in how Scottish Enterprise or Highlands and Islands Enterprise spend their moneys across their programmes, the level 2 data do not allow us

to make that assessment. Those are the principal differences between the level 1 and level 2 data.

Unlike the level 1 data, which Brian Ashcroft dealt with, the level 2 data that have been provided to us by the Executive are in cash terms only. Whereas Brian could present comparisons in real terms after making adjustments for expected inflation, the level 2 data are not set out in real terms. That makes it very difficult to make any sensible judgments about future patterns of spending under the various headings.

11:15

To make that comparison possible and more realistic, I have applied the assumed inflation rates in the level 1 data to the level 2 data. I will present level 2 data in real terms, at 1998-99 prices.

I have made one other adjustment to make a comparison. There has been a reallocation of funds from current local government spending to the communities budget. Footnote 4 on the table specifies that. For the sake of comparison, I have added the number which is now in the communities budget back on to the local government total.

I want to focus on what I have called the big numbers. As Brian demonstrated when talking about the level 1 data, there are cases of very large percentage increases or decreases in a particular aggregate. The seven-figure sums involved are relatively small, so I have mainly disregarded them. I will focus on the biggest changes in percentage terms, but also in absolute terms.

Let us examine what I have called winners in absolute terms. I remind members that I am comparing the end-point year with the last year before the Parliament came into existence. The largest single real-terms increase over that period is revenue spending for hospital and community health services, which runs to over £300 million. Over the period as a whole, the total real-terms increase in the budget is about £880 million. That accounts for a very large proportion.

The next largest component is general pharmaceutical services—over £150 million. Taken together, those two sub-components of health expenditure account for a considerable proportion of the increase in the budget over the period.

I will not go into detail on the other components of change, which are noted in the graph, other than to say that additional expenditure—substantial amounts—is evidently planned for further and higher education and for pre-school education.

To return to a point Brian made about the

treatment of Scottish Homes debt, there is a reduction, as I will explain in a moment, in Scottish Homes expenditure, but there is a broadly compensating increase in the resources available for the new housing partnerships.

Those are the principal increases in absolute terms. If we turn to the principal increases in percentage terms, a slightly different picture emerges, partly because hospital and community health revenue spending runs to more than £3 billion. Even the fairly large cash increase means that it does not feature as one of the largest percentage increases. The largest percentage increases, as you will see, are in social inclusion and new housing partnerships. There are also large increases for a number of education elements.

The largest fall in percentage terms is in European regional development structural funds moneys—more than 30 per cent in the period to 2001-02. There are also significant falls in the budgets for environmental protection, Scottish Homes—as I mentioned—and for student support.

I will make a few points about some of the implications for the budget process of the availability of the level 2 data. There is no question in my mind that the availability of these data represents significant progress, compared with the level 1 data that were previously made available to us. They allow us to undertake an analysis of whether moneys are being allocated or reallocated in line with priorities.

However, if it were possible, a strong case could be made for the availability of level 3 data. First to enable you and others to understand where trade-offs could be made, for example within the further education or enterprise budgets. It would also enable you to understand—to return to a question that was raised earlier—whether expenditure is being tailored towards the Executive's priorities; for example whether, within the enterprise budget, resources are being targeted in accordance with priorities and are being reallocated where appropriate.

Finally, this is not intended as a plea in mitigation or as bleating, and I realise that this is year one, but it would help us and the committee if in future years there was an opportunity for a slightly more leisurely perusal and analysis of the numbers.

The Convener: Thank you Stephen.

Mr Davidson: Both witnesses have said that there has been a fair bit of debt postponement. How sustainable is that? As a result of it, what outcomes might the committee be required to review in trying to handle that situation in future years?

Stephen Boyle: I have to confess I have not had the opportunity to study that issue in detail and I could not make sensible comments on it at this stage.

Professor Ashcroft: All I will say is that in his speech on 6 October, the minister said that previously the Scottish Office had planned to repay the Scottish Homes debt earlier than the original agreements had laid out, but that the Executive is reverting to the original repayment agreements. The sum that was set aside for early repayment, and which therefore was released for other spending, was £59 million. That was clearly simply a reallocation of funds across time: you will need to find that money soon.

In the scheme of things, that amount of money is not great—the budget is £16 billion and we are talking about fairly small amounts—but it is something of a chimera in that it gives you extra spend now but it must be paid for later.

Mr Davidson: In my final year as a councillor, we went through an exercise that had councillors whooping with joy at the ability to postpone debt even further. There were massive movements to push everything into future repayment, which made councils appear to balance their books. However, eventually, money will have to be found in the budget.

Professor Ashcroft: That is right. I do not know what the terms of the contract are, but presumably it will not be a fixed-rate contract. If interest rates rise, therefore, the real debt paid will probably be greater. Because of that, and because the debt will run over a longer period, there will probably be less to spend in the end. Also, the net interest payments would presumably be less if the debt was repaid more quickly.

Mr Macintosh: Professor Ashcroft told us earlier how he thought we should interpret the underspend of previous years. What happened to the underspend in previous years? What is happening to it now? We seem to be benefiting from having it all to ourselves, whereas in the past it presumably went back to the Treasury. Is that your interpretation of where the extra money is coming from, Stephen?

Stephen Boyle: My interpretation is that the ability to carry over underspend is not a function of the existence of the Parliament, but of the comprehensive spending review arrangements. Whether or not the constitutional change that brought about the Parliament had taken place, the Scottish Office would have had the ability to run a three-year spending programme rather than annual programmes.

Professor Ashcroft: All I can do is draw your attention to what the minister said in the Scottish Parliament on 6 October. He said:

“The new arrangements for end-year flexibility, introduced by the Chancellor of the Exchequer, have enabled us to carry forward significantly more money from last year to this and subsequent years. The arrangement is new; it is linked closely with the move to three-year settlements within the comprehensive spending review. In the past, unspent provision had, in many cases, to be returned to the Treasury, but now, the extent to which it can be carried forward from year to year has been extended and we are making full use of that facility.”—[*Official Report*, 6 October 1999; Vol 2, c 1030.]

I do not know the details of what could and could not be carried forward in the past and what can be now. We need to see the outturn figures as well as the planned figures to make a reasoned judgment about what is happening.

Mr Macintosh: In the past, have you been able to see underspend in the outturn figures and work out where the money went?

Professor Ashcroft: I have not done that analysis. We could probably do it, but it would take a bit of time. The outturn figures are published. We should get them now, rather than having to wait.

Mr Adam Ingram (South of Scotland) (SNP): I want to follow up what Stephen Boyle said about the helpfulness of the level 2 data. Obviously the figures are helpful, but they are slightly limited. Had not we had Stephen Boyle here to deflate them for us, it would have been difficult to make head or tail of the movements. Why do we not get the deflated figures? Should not that be standard practice?

As Stephen said, some of the budget lines are huge. We need level 3 disaggregation if we are to make any substantive comments about the allocations. The committee must take that forward.

Mr Swinney: I was surprised to see that we got information in cash terms, as that is almost meaningless for the period we are talking about. Stephen's comments have therefore been very helpful.

Stephen will correct me if I am wrong, but the level 2 figures give us a better assimilation to the bottom line of figures that were already published in “Serving Scotland's Needs”—they are added up to a bottom line.

Stephen Boyle: Yes, and they are in one place.

Mr Swinney: Yes, that is it exactly. We now have a spreadsheet that tallies up all the figures in “Serving Scotland's Needs”. We never had that before and it is to be welcomed.

I wish to stress Adam Ingram's point: we must request the level 3 information as that will allow us to consider meaningfully the way in which patterns of expenditure flow.

Stephen spoke about the substantial percentage increase in social inclusion spend. To what extent

will that increase have come about because of, for example, reductions in the European regional development fund? Is the Administration making reallocations simply to compensate for ERDF reductions, or are there other sources of expenditure—previous headings—that may have been gathered together to be compensated under the social inclusion heading? That seems to be a large shift of resources and I cannot quite understand where it has come from.

11:30

Stephen Boyle: The answer is that I do not know. It is not possible to tell from the level 2 data whether the increase in social inclusion spend is intended to substitute for the reduction in ERDF. One cannot draw that conclusion. All that can be observed is that one has risen and the other has fallen.

Mr Swinney: My interpretation of the figure 1 chart that Brian Ashcroft showed us is that, because of the changes made in the comprehensive spending review, the opportunity has arisen to create a one-off bulge, the impact of which will be smoothed over a three-year period. For example, we are spending 98 per cent of our capacity every year, but we will see that smoothed over in outturn figures over a three-year period.

Professor Ashcroft: Yes, because the CSR sets the agenda for that spending—in total.

Mr Swinney: This financial statement has been presented to us as a combination of plans and outturn for one financial year, which skews the process.

Professor Ashcroft: The amount of new money is less than as presented because some of the new money was simply a reallocation—as far as I understand—from an underspend in the previous year to a planned spend in the subsequent year.

Mr Swinney: That can be done only once, because of the way in which we are going about planning expenditure.

Professor Ashcroft: That is right.

Mr Raffan: I wish to make two detailed points, the first of which goes back to what I said about last week. The detailed programme is rolled out after the chancellor's announcement, like Helen Liddell's announcement about the business schools' arrangement with France and so on. Is not it difficult to disaggregate that kind of expenditure in order to see what comes to Scotland? It is virtually impossible.

Professor Ashcroft: Yes, it is.

Mr Raffan: Does that come under the heading of annually managed expenditure, or is it just a reserved budget?

Professor Ashcroft: To be honest, I am not sure. I would have to look into it.

Mr Swinney: If any of that money is to come to Scotland, it must come under AME. Searching questions could be asked about what is coming.

Mr Raffan: It is important to disaggregate that kind of expenditure, in order to see what is happening and to identify what share we are getting. Cambridge got a huge amount—£70 million—for its tie-up with Massachusetts Institute of Technology last week. What is Scotland getting?

I will move quickly on to Stephen's point about general pharmaceutical services—is that the generic drugs budget?

Stephen Boyle: As I understand it, yes. However, it is difficult because, while I told members what is on the spreadsheet, there is no disaggregation.

Mr Raffan: It is not just a question of getting more detailed figures. I was with Tayside Health Board last Friday and read *Public Finance* magazine last night and learned that generic drugs have multiplied in price six times since last December. I do not know whether you know about that. Inflation in generic drug prices is huge and it is causing huge problems for health boards. Presumably the Executive knows about that and is making allowances for it, so it is not a real increase in expenditure.

Stephen Boyle: That comes back to the point I made at the outset about the figures that we received being set out in cash terms. The simplifying assumption that I made was that inflation would be identical across all budget headings for the next three years. That is a hugely simplistic assumption. In some components of the budget, such as pharmaceuticals, inflation may be much higher and in others it will be less.

One of the things that the committee should track—I will not pretend that it is easy—is real trends in the level 2 headings and below.

Mr Raffan: This is the sort of matter that we can find out about only through parliamentary questions. It is important; all the health boards are under huge pressure on their drugs budgets at the moment. Tayside Health Board has a £1 million overspend already. That has had huge repercussions for its budget. Perhaps the Executive is more aware of this than it has indicated in the past.

Professor Ashcroft: We have mentioned the need for more disaggregation, down to level 3 figures. Stephen's point is valid: because we got the data only in cash terms, he has had to apply a general deflator. When the Scottish Executive presents figures in real terms, it is legitimate for

this committee to ask the Scottish Executive what deflators it is using to bring the figures into real terms.

Is the Executive applying a specific head deflator, such as general pharmaceutical services, where we know that there is significant inflation, or is it applying a general deflator? If the general one is applied to, for example, the health budget, the figure may appear to be rising for that head but it could be falling. It is important that the methodology that the Executive is using on deflation is made available to the committee so that members can have a much better understanding of the real, underlying changes. At the moment, members cannot understand that.

Stephen Boyle: My understanding, from examining the level 1 data, is that a uniform deflator has been assumed across all budget heads.

Professor Ashcroft: My feeling, from "Serving Scotland's Needs", was that there was some difference in the deflators, although I was not clear where they came from.

George Lyon: I will return to John Swinney's point about the bulge—the one-off windfall that we will allegedly have in the coming year. Surely if we are to establish whether that is what will happen, we must carry out an analysis backwards on the outturn figures for previous years. It is naive to expect that because the Scottish Parliament is here we will suddenly spend 100 per cent of the planned budget in the next one to two years and that there will be no underspends in any budgets.

The world does not work that way. I do not think that the argument that this is a one-off benefit will stand up to scrutiny. At the end of planned expenditure budgets each year there will be underspends in some areas and overspends in others.

There will not be a 100 per cent spend every year when outturn figures come through. It would be useful for this committee to have an analysis of previous years' outturn figures to see how much was underspent and whether it was taken back to the Treasury. That would give some indication as to what underspend there may be in years to come.

Mr Swinney: I am arguing that the graph illustrates that the minister has announced planned expenditure for the next year and has added on the surplus that has been carried over from the previous financial year. This is the first time he has been able to do that, so has given us a revised, inflated, planned figure. He will never be able to do that again because it will meander along as in previous years.

I am trying to get to the nub of this: has an

inflated planned figure been announced—with a flourish—that will be valid for one year only? Will we then revert to a much more smoothed-out level of expenditure? The graph seems to suggest that that is what will happen.

George Lyon: Yes, it shows a one-off gain.

Professor Ashcroft: No, I do not think that that is exactly true. If you present the data in terms of planned expenditures, you can always—if you underspent last year—bring that forward into next year's plans. You then get the rather bizarre situation that your ex post planning data do not change, but your forward planning data can change as a consequence of the underspend in the previous years. That is why you need outturn data to make any sense of it.

Mr Swinney: That is because you are not comparing apples with apples.

Professor Ashcroft: Exactly—but that is the whole point. The outturn figure for 1998-99 has not been published, as far as I know, so we cannot compare. If you always present things in planning terms, the previous years are the previous plans, and they stick; but the future years can change according to the degree to which you carry forward. You are not comparing like with like. That is why you must have the outturn figures to make sense of it.

George Lyon: It would be useful, convener, if we could have an analysis of the underspends in previous years.

Stephen Boyle: I do not think that that will necessarily be as easy as you might think. Ten or 15 years ago, the issue with budgeting in the United Kingdom was not underspend but overspend. UK Governments systematically overspent on their budgets for a whole host of reasons. There has been greater discipline in public sector budgeting throughout most of the 1990s, so there have been underspends.

At a UK level, we have typically had three bites at planned expenditure. This year we would have plans for this year, next year and the year after; next year, two of those years would be revised. So which is the relevant comparator? Do you compare the first version of the plan with the outturn, or do you compare the third version of the plan with the outturn? The exercise is well worth doing, but it is not necessarily straightforward.

Mr Ingram: I want to develop the theme of comparing like with like. Stephen, do you have any difficulties reconciling the level 2 headings that are provided in your paper with what is in "Serving Scotland's Needs"? It appears that some pre-school education money may have gone into schools. Has there been some redefining of headings?

Furthermore, why is there nothing beside the heading of social work? Where do those figures appear?

Stephen Boyle: I have had a very quick look at "Serving Scotland's Needs" and I have tried to line the level 2 data up with it. In places, there appear to be inconsistencies, or at least discrepancies, that need to be explained. I do not know the reasons for them.

Mr Ingram: We will obviously have to follow that up, convener.

Mr Raffan: Looking through this, there is a big decline in the level 1 figure for the justice budget, but then, when we get down to the level 2 figures, it does not seem to appear. Do we have any idea what that reduction is? The Scottish Executive administration costs are down as well; I would have thought that they would be increasing. Perhaps that is why it is taking eight weeks to reply to letters.

Stephen Boyle: As I said, my presentation covered a slightly different time from Brian's. I went back a year further than he did. I have also converted my figures to real terms. Over the period 1998-99 through to 2001-02, the justice level 1 line increases by £29 million in real terms. The major changes within that are a reduction in legal aid of £11 million, an increase of £14 million in miscellaneous, which includes such things as civil defence, and an increase of £17 million in prisons.

Mr Raffan: Does that discrepancy arise because the analysis covers a different period?

Professor Ashcroft: There is a big jump between 1998-99 and 1999-2000, which accounts for the discrepancy between our analyses.

Mr Raffan: Out of interest, do we have any idea what Scottish Executive administration is? I cannot understand why the amount for that has gone down so significantly, certainly at level 1.

Stephen Boyle: There is only one line for Scottish Executive administration. I assume that this year and next year there are set-up costs, which will begin to fall out.

11:45

Mr Raffan: Is the reason for the increase in the social inclusion budget the huge transfer from the local government budget to communities?

Stephen Boyle: There is a transfer from local government current spending next year and the year after of £57.6 million in cash terms.

Mr Raffan: So was that money in the local government budget before? It was not ring-fenced.

Stephen Boyle: There is no indication, as local

authority current expenditure is one line of £5.5 billion. All we know is that a sum has been deducted from that and reassigned to communities.

Mr Davidson: When the Minister for Finance appeared before the committee, I asked him a question about NHS trusts that neither he nor his officials could answer. He agreed to come back. If the minister is working with those problems—and, as we have heard, we are working with even more problems—how can we ensure that we have on-going support for some sort of management accounting audit process that will enable us to be kept on track? Can we bring in outside advice to keep us looking in the right directions and under the right stones?

We are in a learning process anyway, but the Minister for Finance and his department cannot give us the information that we need because it seems to come from other departments. There seems to be a lack of flow of information through Government, let alone down to this committee.

The Convener: We can take advice or evidence from any source that we think appropriate. If we find a good source, I think that we should do that.

George Lyon: I agree with David Davidson. I think that what he suggests is very important in allowing us to function as a committee and to ask the right questions. We are going round in circles here and are poking about in the dark.

Mr Raffan: It is terribly important that we have special advisers, although obviously the committee has to decide on matters itself. Mike Watson will know that special advisers are sometimes appointed for just one inquiry but, on an on-going matter such as spending, we need permanent advisers.

The Convener: On call.

Mr Raffan: They should be on call from one year to the next. If we chop and change advisers, we will get more confused than we are already.

The Convener: We will have to consider that.

Mr Swinney: I would appreciate the views of Stephen Boyle and Brian Ashcroft on the difficulty involved in tracking the transfer of burdens and responsibilities between different parts of Government. We have touched on that in relation to local government and social inclusion. I suspect that local authorities are increasingly assuming burdens for aspects of service provision, but it is difficult to track from where the resources, if any, have come to pay for that. What is your impression of the availability of the information that would enable the committee to strip down that £5.5 billion line in the local authorities budget to establish how that budget was accommodating the additional burdens local authorities are having to

bear as a result of legislation that we or others may have passed?

Professor Ashcroft: I am not sure what the information would be; I would have to look into it. It is interesting that the local authority budget is increasing in cash terms, as well as in real terms. Something must be driving that, but we are not being told what. Is it being driven from the bottom up? Presumably, it must be coming from the local authorities. However, it would be useful for the committee to have that information.

Mr Swinney: The budget is going up in cash terms from a low base. In 1997-98 it reached its nadir of £5.384 billion and it has crept up since. The 1998-99 figure will be a decline in real terms from 1997-98 but, in that period, real burdens on local authorities have increased. There is a squeeze.

Professor Ashcroft: There is not necessarily a correlation between expenditure and the services that a local authority has to bear. We need that information and we need to find a way of pulling all the local authority accounts together. That is the problem.

Mr Swinney: Let us take the example of housing. If we were to decide to cut this spreadsheet differently—to cut it in terms of the total amount that is spent on housing in Scotland—it would be impossible on the information that is currently available to get that figure swiftly.

Stephen Boyle: The figure for the amount spent on social housing?

Mr Swinney: The amount spent in local authority support for housing, local authority grants to housing associations and so on. It would be not be at all easy to amass a figure for the total amount spent on housing in Scotland by the various agencies.

Professor Ashcroft: That is because we would need the local authority line to be broken down, and we do not have it broken down. That is the case with education as well.

Stephen Boyle: There are two approaches that we could take to this kind of issue. Some of the tables in "Serving Scotland's Needs" were helpful in explaining where there had been reallocations of responsibilities, but trying to track them is exceptionally difficult. One would have to reach judgments and make compromises about what the data were saying.

I have not looked at those figures in much detail recently, but the Chartered Institute of Public Finance and Accountancy also produces some fairly detailed data on local authority spending, both capital and current. Those might help the committee to get disaggregations of the local

authority lines quickly.

Mr Swinney: I hear what you are saying, Stephen, and respect the Chartered Institute of Public Finance and Accountancy, but is this not something that the Scottish Executive should provide?

Stephen Boyle: If the committee wanted to make progress on this quickly, the information is there. I do not know how quickly the Executive would be able to respond.

The Convener: Could we try to avoid talking over one another, as it is difficult for the official report to follow?

Mr Raffan: In Fife alone, local government has had to absorb £47 million in salary increases over the past six years. We can get the broken-down figures for that sort of thing. However—and I would be grateful to our witnesses if they could provide feedback on this—the committee must also discuss how we can ensure that the different subject committees examine the budgets for their areas of responsibility. They need to work on disaggregating their budgets as far as possible and to feed that information back to us. John Swinney was right to highlight the additional costs that local government has had to absorb without assistance from central Government.

George Lyon: If we are going to investigate how effective local government has been and the extra pressures to which it has been subjected, we must examine the best-value programme as well. We need to get back some of the figures and reports on that, so that we can compare performances across the different areas of local government. We cannot say that the pressures are unsustainable unless we know how effective the delivery of service at local level has been. This committee should take some ownership of that process, because we exist to ensure that every pound of the Scottish budget is spent effectively. Local government spending accounts for a third of our budget and we need to spend some time scrutinising it.

Mr Davidson: Another area that we could do with some information on is local authority funding streams from sources other than central Government, as a number of local authorities have been involved in property speculation—perhaps I should say property development—with arm's-length companies. Other local authorities are using the private finance initiative in various areas. These things do not apply evenly across Scotland, but information on them can make quite a difference to the committee's view of what goes out from the centre. We could do with some input when we are dealing with such subjects and with health matters.

Mr Raffan: There is only so much that we can

do. We are getting down to health board level. I have spoken to two health boards in the past 10 days and they have told me that they are down to the bone in terms of efficiency savings. They are now having to turn their attention from non-clinical matters to clinical matters, which worries me because it means rationing. However, we cannot start taking evidence from individual health boards—the Health and Community Care Committee would have to do that.

Elaine Thomson (Aberdeen North) (Lab): Surely some of the areas that David Davidson and Keith Raffan have mentioned—especially in relation to local finance—should be examined by the subject committees that are responsible for them, rather than by this committee.

We are all having difficulties with the figures, for various reasons. Perhaps it would be useful to get experts from the Scottish Parliament, or from outside, to recommend ways forward and how information should or could be presented in a way that makes it easier for the committee to understand. That could mean ensuring that we see figures for actual spend against planned spend, or the rate of inflation against each of the programme headings and so on.

The Convener: Stephen and Brian, if there is any specific information that you think we should be asking the Executive or the Minister for Finance for, it would be helpful if you would tell us. We want to know which questions to ask to elicit the information that will enable us to make proper judgments.

Stephen Boyle: As Brian Ashcroft said, we plan to write a paper on the subjects that we have discussed. Among the points that we will address will be the significant gaps in the information. I presume that you will want the report before it sees the light of day.

Professor Ashcroft: We have mentioned several areas already. We feel that the level 3 data, where they are available, would help in the analysis of trade-offs. Clearly, you need to have the data in real terms as well as in cash terms. To judge those data appropriately, you need information on the deflators that are being used, from which you can assess the implicit judgments about inflation in each of the heads.

The Convener: That has emerged already.

Professor Ashcroft: It is crucial if any sense is to be made of the data. You would also need up-to-date information on outturn expenditure as well as on planning expenditure. That information is crucial if you are to make a judgment.

George Lyon: I am not deriding what we are doing here today, but we cannot have a serious discussion about the figures that are in front of us

because, as Brian Ashcroft outlined, we need standard formats. That would enable us to get to grips with the figures, to start looking at where the trends are going and to do some real work.

Over the next few weeks, our challenge is to get to grips with this subject by working with these gentlemen, or others, to ensure that the committee comes to an agreement with the Executive on what we need to enable us to have a confident discussion on some of the issues that arise out of the Scottish Executive's budget.

The Convener: In fairness, the Minister for Finance has made it clear in previous meetings that he is prepared to produce figures that can be more widely understood. We have to make the most of that.

Mr Swinney: Brian Ashcroft's summary on the type of information that would be useful is absolutely what we need. We asked for and have received level 2 information, which saves us a lot of headaches in trying to put columns together in "Serving Scotland's Needs". Some of the detail in that document does not really show us level 3 information or how small the large numbers can become. We should follow Brian's suggestions about the kind of information that we should request from the Minister for Finance.

12:00

The Convener: We have covered quite a few specific points. Stephen Boyle and Brian Ashcroft will put together a report that the committee will see. We will try to feed that report's points into the way in which the committee operates. Furthermore, we will have to ensure that the Minister for Finance receives the suggestions about the form in which information should be presented.

Unless there are any other comments, I suggest that we draw things to a conclusion. I thank Stephen and Brian for their time.

George Lyon: Will Stephen and Brian also be involved with the committee when their report becomes available? Perhaps we need to have an on-going input from them.

The Convener: We will have to discuss that separately. It is understood that we will need some general reference point—if that is not too crude a way of putting it—to keep us properly informed. That might not involve just one or two people; it might well be horses for courses.

Mr Raffan: George Lyon has raised an important point. There is a need for continuity. Although we might want horses for courses for specific inquiries, it is urgent that the committee considers appointing permanent advisers, particularly on this issue.

The Convener: Whether such an adviser would be permanent is a matter for consideration.

Mr Raffan: I think that we should have a permanent adviser, but we can discuss that in committee.

Mr Davidson: Elaine Thomson rightly raised the issue of what other committees are doing with the budget. Have you established relations with other committees through the conveners committee so that we do not get an issue dumped on us for a yes or no? We need flows of information from other committees about the budget process.

The Convener: The conveners committee has had only one meeting since we last spoke about that and there was no opportunity to raise the matter. The point is that committees need level 3 information to function effectively.

Mr Raffan: The financial issues advisory group is clear about the involvement of subject committees at stage 1 of legislation. We will need certain information in a specific form from those committees. Perhaps we should decide what form that information should take and suggest—humbly—that other committees follow our recommendations.

The Convener: But that has already been agreed.

Mr Raffan: I know, but we could consider the format.

The Convener: Right. I thank Brian Ashcroft and Stephen Boyle for joining us.

Meeting closed at 12:03.

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