FINANCE COMMITTEE

Tuesday 23 March 2004 (*Morning*)

Session 2

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FINANCE COMMITTEE

10th Meeting 2004, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab) *Mr Ted Brocklebank (Mid Scotland and Fife) (Con) *Kate Maclean (Dundee West) (Lab) *Jim Mather (Highlands and Islands) (SNP) *Dr Elaine Murray (Dumfries) (Lab) *Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD) *John Swinburne (Central Scotland) (SSCUP)

COMMITTEE SUBSTITUTES

Mr Adam Ingram (South of Scotland) (SNP) Gordon Jackson (Glasgow Govan) (Lab) David Mundell (South of Scotland) (Con) Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

John Blackw ood (Scottish Association of Landlords) Neil Blake (Experian Business Strategies Ltd) Philip Shearer (Scottish Legal Aid Board) Clive Shore (Experian Business Strategies Ltd)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK Jane Sutherland

Assistant clerk Emma Berry

Loc ATION Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 23 March 2004

(Morning)

[THE CONVENER opened the meeting at 09:48]

Items in Private

The Convener (Des McNulty): I welcome the press and public to the 10th Finance Committee meeting of 2004, and ask people to switch off their mobile phones. We have not received any apologies. Now that Fergus Ewing is here, I have seen all members of the committee this morning, so I hope that all will be here.

The first item on the agenda is to consider whether to take item 3 in private. It will be a discussion about individual witness expenses, which I consider would be more appropriately discussed in private. Do members agree to deal with item 3 in private?

Members indicated agreement.

The Convener: Secondly, we agreed at our meeting on 9 March that our discussion on a contingent liability should be considered in private, because there might be some on-going negotiations in relation to the liability. However, I also said that if the negotiations were concluded in time for 23 March we should take the item in public. I am told that the negotiations continue, therefore the item will be taken in private, as per our agreement on 9 March.

09:49

Meeting continued in private.

11:43

Meeting continued in public.

Public Sector Jobs Relocation Inquiry

The Convener: I welcome the press and public. We are now in open session. Item 5 is the taking of further evidence for our inquiry into relocation of public sector jobs. The committee expressed its wish to take from relocation experts evidence on the economic benefits of relocating public sector jobs. I welcome to the committee representatives from Experian Business Strategies Ltd. They are Clive Shore, who is director of business consultancy, and Neil Blake, who is director of research. Members will be aware that Experian was commissioned to undertake an appraisal of completed private sector and public sector relocations, and to examine the economic impacts of public sector relocation as part of the Lyons review. Experian will give us a presentation, which I notice is quite long. I do not know whether you want to go through all of it.

Neil Blake (Experian Business Strategies Ltd): No, we do not.

The Convener: It would be helpful if you could truncate it. When it comes to questioning, I ask members to confine their questions to the work that was carried out by Experian, rather than to focus on the Lyons review, because it will be unfair to ask our witnesses about matters for which they were not responsible. I invite you to start your presentation—you can shorten it as you feel appropriate.

Clive Shore (Experian Business Strategies Ltd): Our intention is to speak for 30 minutes maybe less—after which we will have time for questions. I will give an introduction on what we are as an organisation and on our role in the Lyons review. My colleague Neil Blake will talk about the regional economic case for relocation, then I will talk about some of the relocation lessons that we have learned from relocations that we analysed as part of the Lyons review.

Experian Business Strategies is a regional and economic consulting business that specialises in local-area analysis, the labour market, property, construction and market research. We are part of the wider Experian group, which is an information company probably best known in the United Kingdom for being the largest credit reference agency in the country. We also produce an awful lot of marketing information. Experian's parent company is Great Universal Stores Ltd, which also owns Argos Ltd and Homebase Ltd and is a majority shareholder in Burberry Ltd. It is quite a large parent organisation. 11:45

We were asked by Sir Michael Lyons to look at two specific matters. First, we were to review the work that was done by Henry Hardman during the review in the 1970s that examined the economic impact of relocation on the regions. We were to review those conclusions, update them and consider whether they still hold. We were also asked for our view, as regional economists, on the regional impact of relocations. The second aspect of our study was to take about 20 previous relocations and to consider what worked, what did not work, what lessons could be learned and how those lessons could be applied to future Government relocations. The case studies were drawn from the private sector and the public sector.

A third element of our work is not shown on the slides. You have probably heard of the King Sturge & Co Ltd analysis, which looked at 102 locations around the UK. King Sturge was also a client of ours; many of the data that it used were provided by Experian Business Strategies.

We looked at 10 public sector case studies. I will not read through the whole list, but there is a wide variety of bodies. The Defence Procurement Agency's relocation to Bristol involved about 6,000 jobs. We also studied the Inland Revenue's relocation to Nottingham. The Scottish example that we examined was the relocation of the Department for International Development to East Kilbride in the early 1980s. More recently, other jobs have moved there over the past couple of years.

We also looked at seven private sector organisations. The odd one out is GUS, which, as I said earlier, is Experian's parent company. We used GUS as an example of an organisation that has a very small number of senior people based in London but which has most of its senior management team spread around the regions. Experian is a Nottingham-based company and Argos is based in Milton Keynes. The Treasury review team felt that examination of a private sector company that had a small organisation in London might help to inform some of its decisions.

Apart from GUS, we tried to get a good mix of organisations that had relocated between about five and 15 years ago. The period had to be at least five years, because we wanted to see some of the longer-term results of relocation. If it was any more than 15 years, there would have been practical difficulties in being able to interview senior people who were still working for those organisations and in finding an historical record on which we could rely. We therefore tried to set markers at five and 15 years. We also looked at some European relocations, but that was not the main focus of our work. There was not really time to do that and we were not asked to do it, but we studied a couple of examples of relocations in Holland and Germany.

I shall now hand over to Neil Blake, who will talk in more detail about the regional economic impact work that he has done.

Neil Blake: As Clive Shore said, my part of the exercise was to study the impact on receiving areas and, in part, on the areas that lost jobs as a result of relocation exercises. I shall begin by running through some of the top-line summaries before going into the methodology and the detailed examples that we considered.

Our study was set in the framework of the Hardman review of the early 1970s. The key feature of Hardman's review was that he concluded—rather than assumed, although there was not much difference at the time—that relocation would have no net benefit to the United Kingdom and that the impact on the economy of the area that received the jobs would be equal only to the number of jobs that were relocated there. In other words—to use our technical terms, which I shall come to in a moment—he concluded that there would be no multiplier effect, which was of great concern to Lyons.

Things have changed since Hardman. It is arguable that regional disparities are more marked and that, as part of that, there are more problems with overheating in the south of England than there were in the early 1970s. If one can make a sound business case for a relocation and if it will result in a net gain for the Exchequer, there will be a net gain for everybody and it is more likely to benefit the UK economy as a whole, rather than just the relocation receiving area. There is still debate about the multiplier effect, or the effect on the local economy that receives jobs. We can conclude only that it is likely that the effect will be beneficial-we will return to the detail of that in a moment-because there are upsides and downsides of receiving public sector jobs. One undercurrent is that if there is flexibility in public sector pay, and the pay rates of jobs moving into an area are not wildly out of line with pay rates for equivalent jobs that already exist in the area, the impact is much more likely to be beneficial.

The better the quality of, or the more senior and better paid are the jobs that move into an area this might sound like a bit of a contradiction, given what I have just said about flexibility, but I am talking about higher managerial grades—the more beneficial a relocation is likely to be to an area. There are a number of reasons for that. It is unfortunate that such jobs have in the past tended to be the hardest jobs to relocate, which is one of the challenges that Government faces. There is some attraction in the idea of clustering relocations—not merely moving jobs out of central locations and scattering them around less advantaged parts of the country, but focusing on certain areas. However, there are also downsides, to which I will return.

I turn to the multiplier question: For every job that is moved into an area, how many additional jobs might be created? Part of the answer to that involves the crowding-out idea. We have to ask whether by putting public sector jobs in an area we would crowd out or displace existing jobs, and we must consider what that would mean for the UK as a whole. I will outline some technicalities. Why might there be a multiplier effect? If a job or department is moved to an area, we can expect spin-offs. Without going into the technical jargon, I can tell you that we would expect spin-offs through purchase of local services by the department. Those services might range from local professional services to local cleaning services. The purchase of goods is less likely to have an impact, because they tend to have more of a national or international market, but we would still expect spin-offs in that respect. The other effect comes from the purchasing power of the people who are relocated. They will spend some of their income in the area, which will generate extra jobs. Taking all that together, we would expect that for every job that moved into an area, rather more than one would be created.

On the downside, there are what we call crowding out or displacement effects. If jobs are moved into an area we have to consider whether the people that will be employed will be taken from existing industry in the area either because they will be paid more or because the public sector is more attractive in some way. If an area has a large and loose labour market and high unemployment, relocation of jobs to it will probably not have much effect. However, in some circumstances, we have observed that the private sector is crowded out by the public sector. Again, that is more likely in some circumstances than in others.

Goods and services, consumer spending and displacement taken together give us a total multiplier effect. Those factors will depend on the size of the area—not just geographical size but the size of the local labour market. The bigger it is, the bigger the pool of people to employ and the fewer negative effects we would expect from crowding out.

The industrial structure of an area can also be important. Government departments are more likely to buy in local services than they are to buy local goods. The more of such services there are in the area and the better developed the service economy is, the more likely it that the economy will benefit. The types of jobs that are involved will also matter. I said that relocation of higher-grade jobs will tend to bring more benefits because those jobs are better paid. There tends to be more of a national market for professional jobs and managerial jobs, so the pay and skills are unlikely to be far out of line with those in the local economy. The more spare capacity there is in the local labour market, the more likely the area is to benefit.

There can also be housing-market effects. The weaker the housing market or the more spare capacity there is in it the less likely it is that jobs coming in will lead to local house-price inflation, which would have knock-on effects on the rest of the economy. Conversely, if the labour market is tight and problems with house-price inflation already exist, relocation can obviously exacerbate them.

Studies usually consider two kinds of displacement, which we call product market displacement and labour market displacement. Product market displacement is not really relevant to public services; it means, for example, a supermarket opening and driving out local shops. There is unlikely to be competition in the product market for public services, so we are focusing on the labour market.

I will not go into the technical details of how relocation is evaluated, which is not usually done by gathering direct evidence but by trying to work out, using various economic models, what the relationships are likely to be between areas. The slide that members can see now gives a summary studies that the Government. various of academics and we have done into the likely ranges of multipliers. There is a range of results, but within quite a narrow band. Most studies have come up with a multiplier that is somewhere between 1 and 1.5. If the figure is 1, that means that 1 job relocating to an area has no spin-off effects, which means that any beneficial effects of extra spending are entirely balanced by crowding out. At the other end of that range, the studies show that every job that is moved to an area will create another half a job.

One well-known study that produced a negative multiplier was done by academics at the Fraser of Allander institute, who came up with multipliers that were considerably less than one in some circumstances. That happened using the extreme assumption of there being very closed labour markets in which wage rates were driven up heavily by jobs relocating to an area, which crowded out local industry. That was a theoretical model. The Fraser of Allander institute also came up with one of the highest multipliers, in considering what would happen if the housing market was flexible and people could just move into the area. Those studies came up with very different results, but the reality is probably somewhere in between.

We did two specific studies to try to illustrate the point. One examined the relocation of the UK Patent Office to Newport; the other examined the relocations of the Department of Health and the Department for Work and Pensions to Leeds. We estimate that the Newport relocation had a multiplier of about 1 and that the Leeds relocation had a multiplier of about 1.3. The big reason for the difference was the size of the local labour markets and the structure of local industry. The Leeds labour market is rather bigger than the Newport labour market and it has a bigger service economy that was able to benefit through selling extra services to the new public sector industry. Even using the same methodology, one gets a range of results when considering different relocations.

A more subtle point is that many multiplier studies are what we might call static, in that they consider what the difference would be in five years if jobs were put in a certain place. However, some people argue that public sector relocation can have long-run detrimental effects. The idea is that the jobs that are crowded out are private sector jobs that may have grown in the future, whereas the public sector jobs will not increase in the future unless we continue to relocate people. Some people have raised the possibility that that effect would cancel out any benefits; there is evidence of that from some parts of the country. That is something to bear in mind; it reinforces the importance of trying to quantify crowding out and the possible effects of public sector wage rates being out of line with local wage rates.

To get away from the economics, the committee might want to think about a few other matters, one being the type of jobs that are involved. Relocation should not be simply about moving back-office and administration jobs out of central locations to the rest of the country. The strong evidence is that moving managerial and professional jobs will, for reasons that I have already mentioned, have a better effect on local economies, although there are some more subtle reasons that the committee might want to consider. One such reason is that by moving highly skilled people to other parts of the country, they may eventually leave the civil service and move into private industry, or they may interact with local industry through secondment or supplier-purchaser relationships, which would facilitate skills transfer in the local economy and improve its competitiveness.

There are also intangibles such as the impact on local services and schools; for example, the kind of improvement that happens when middle-class people move from one part of the country to a deprived area. Another issue to think about is the hard-to-define regeneration effect. These days, public sector relocation often goes along with construction of good-quality new buildings. Of itself, that is neither here nor there, but if the relocation is part of a larger regeneration scheme, it can have a big effect on an area. The people in the property industry whom we consulted said that they have always been keen to attract public sector investments as part of a bigger property scheme. Examples of that can be seen across the country, including here in Edinburgh.

12:00

Regional clustering might be a bit difficult to understand, but the idea is that moving lots of jobs to the same place is better for public sector efficiency, not only for reasons of traditional economies of scale but for career progression reasons. One reason why people do not want to leave London or Edinburgh is that they think that they might be left in a dead-end job, from which they will not be able to move to another job. That problem can be got round by having other civil service departments near-by. However, one problem with doing that is the higher risk of crowding out local housing and labour markets, so a fine balance must be struck. Such crowding out should not be a problem for higher-grade jobs, which are the jobs in which career progression becomes more of an issue.

I will touch on the impact of relocations on the UK as a whole. Hardman assumed that the effect on the UK would be zero-most studies have assumed that relocation is a zero-sum game. However, there are sound reasons to think that that is not necessarily the case, especially in the long run. In the past five to 10 years, there has been incredible overheating in the south of England's economy, which has suffered from property-price inflation and problems with staff recruitment and retention. Under those circumstances, there is a sound logical argument for moving people out of overheated areas-the phenomenon of overheating is not unique to the south-east of England-to areas where more spare capacity exists. The idea is that the office space and transport infrastructure capacity can be filled by other jobs that have growth potential. If that happens, there should be a net benefit to the UK. Another argument is that relocations that save money for the Exchequer add to the competitiveness of UK plc.

In conclusion, the big uncertainty about relocations is the displacement effect, which is the question about what effect the public sector jobs that move in will have on the private sector. We argue that that effect depends largely on the local economy and that it varies from place to place; however, it is one of the more controversial things to assess in such studies. We think that the impact is likely to be positive, but that might not always be the case. The mix of jobs matters. There is a bigger threat of displacement at the lower end of the occupation scale, such as in administrative and clerical grades, which are more likely to Regional displace local jobs. public-pay flexibility-in other words ensuring that the pay of the jobs that move in is not too far out of line with local rates-limits displacement and thus helps to increase the local economic multipliers of any relocation.

Clive Shore: We now turn our attention to the relocation lessons from the 20 case studies that we examined. We will consider the benefits and rationale for those relocations, then we will mention some of the challenges and risks. We will also talk about what was required to secure the anticipated benefits.

Two clear reasons that were frequently mentioned for relocation were improved premises and cost savings. The state of a building—if it had become old and obsolete—or a lease's coming up for renewal often acted as catalysts for change in host organisations, which decided that it was time to move to a new building and to do things differently. Premises are quite a strong driver for change.

The two main elements of cost savings were rent-particularly if the organisation had moved out of London, where rent is significantly higher than in other parts of the country-and labour. One of the main drivers for reducing wage costs was not so much the average wage rate, but the London weighting. We found many examples of significant savings' being made on wage costs: some private sector organisations said that they had saved between 20 per cent and 30 per cent over three to five years. That said, some of those savings were phased in because the reduction in London weighting was phased in over a period of years. In the Patent Office, the reduction was phased in over three years and in another example that springs to mind it was phased in over five years. The time when the cost savings hit and the length of the phasing-in period are elements that need to be considered in business cases.

Jim Mather (Highlands and Islands) (SNP): Did you mention consolidation?

Clive Shore: One example in that respect is Thames Water, which decided to consolidate the seven or eight call centres in the Thames Water area at a single site in Swindon. By doing so, it benefited from cheaper rent and wages west of London.

That leads to my next point about the catalyst for change. The organisations we interviewed that

seemed most comfortable with the impact of relocation viewed it as being more than a logistical exercise and an opportunity to change how they conducted their business. Relocation allowed them to examine their culture and processes and to set down clearly the objectives of such an approach and the changes in internal behaviour and customer service that they were trying to achieve. They tried to drive through some fairly radical ideas.

For example, in the public sector, there was a lot of opposition when the Defence Procurement Agency decided to move to Abbey Wood in Bristol. The three service arms were quite relieved when they found out that the Abbey Wood building was going to be set in clusters in three particular neighbourhoods and thought, "Oh good, the army, the navy and the air force can each have their own cluster". However, it turned out that the individual services were mixed together in those clusters. The fact that they then had to work together led to significant benefits.

The issue of labour force availability has been increasingly mentioned in our discussions with organisations that have relocated more recently. It is getting harder and more expensive to recruit and retain staff in London, particularly at some of the more junior grades. Some organisations that we spoke to were worried about the quality of the people that they were recruiting at those grades for the price that they were paying. When they relocated, they found it much easier to recruit the right quality of people for the jobs that were available.

Although I have been detailing the benefits of relocation for organisations, such a policy also has many wider economic and social benefits from a UK plc or Government perspective. For example, Neil Blake mentioned the regional economic impact and interviewees in the study also made many references to regional devolution and improved decision making. However, members will see that I have put a question mark beside "Improved decision-making" on the slide in question. People made the prognosis that moving more civil servants to different parts of the country would improve decision making by bringing Government to the people. Unfortunately, we could find no evidence of that; the issue might be worth some further analysis.

In this study, we made an important distinction between a successful move and a successful relocation. When we talk about a successful move, we mean the logistical exercise involved in getting from A to B and ensuring that, on day one, everyone has moved into the new office and everything works. One can tell only after a few years whether a relocation has been successful, whether it has bedded in as expected and whether the business case benefits have been realised in practice.

The move must be treated as a catalyst for change in order to secure benefits from it. A relocation must be viewed as an opportunity to do something different. Moreover, tight project management is critical, although it must be said that the weaknesses that we found in some case studies related more to the private than to the public sector. It is important to have detailed human resources, accommodation and technology teams that work under a full-time project manager. Such an approach requires strong leadership from the top to make clear the commitment to the relocation-there were some examples in which you could tell that the senior people were not fully behind it. If that is the case, it will be found out as the relocation progresses.

Business-case discipline and transparency is the final area. We strongly believe that a detailed business case must underpin every relocation. As different people mean different things when they talk about business cases, it is important that I say what should be in the business case.

The business case is much more than just the financials; they are an important part of the business case but there must be a clear description of the wider benefits that are anticipated. If those benefits are economic or social, they should be articulated as such. Our recommendation in our report to the Lyons review team talked about a two-stage business case process.

The first stage is writing a business case on the assumption of the narrow and selfish interests of the organisation for which it is being written. For example, a business case for the Foreign Office might say that the Foreign Office wants to move a certain number of people from London to wherever and would set out the reasons why it wants to do that. That would include none of the regional economic aspects and benefits that Neil Blake was talking about-that should be a second consideration, the result of which might be that the Foreign Office should not move the jobs where it had planned to move them, but to another town. However, that decision would be made transparently, in the full knowledge that the Foreign Office would be moving away from the optimum solution because of a business or political decision that was made as a result of a consideration of the two pieces of evidence. However, we found that, when people prepare business cases, they mix those elements up, which means that there is a lack of transparency that makes it harder to see the underlying rationale.

On the longer-term relocation lessons, we found that in the majority of relocations people tended to

mention four main pitfalls in the first four or five years. The first is the issue of twin cultures. It became quite common for people to say that, because they were placed in satellite accommodation quite a few miles away from London, they felt isolated and had a different culture from the people who had been left behind. One private sector organisation said that, because they began to feel like a lost tribe, they started to act like one.

The second is the issue of career isolation, which is linked to that feeling of isolation. Particularly in the public sector, people felt that the move away from London would hurt their career prospects and that it was important for them to network in London and to be seen back in London as much as possible. That links to the third pitfall, which is excessive travel. That tended to be a problem for more senior people.

The final pitfall relates to lost skills. It is important to ensure that, when an organisation moves from A to B, it takes enough people with it. It should not take too many, as it might want to change its culture, but there should be enough to ensure that the organisation has a foundation of the necessary skills and has not lost some key staff.

All those pitfalls are risks of relocation, but they can be militated against by an effective planning process. None of them is a reason for not relocating. For example, excessive travel can be dealt with by videoconferencing. The Department for International Development has used videoconferencing in a fantastic way in Scotland. With regard to career isolation, the Lyons review picked up on the importance of clustering and examined the issue of bringing a critical mass of civil servants to certain locations to ensure that staff have career progression opportunities. On lost skills, planning is essential to identifying early on who the key people are that the organisation wants to take with it and running a clear campaign to persuade them to move. In many examples, there was a lot of concern, fear and sometimes hostility before such a move, but afterwards many peoples' attitudes had been turned around. That is a generalisation, but in many examples that is the message that we picked up.

In summary, many of the organisations to which we have spoken have benefited significantly from relocation. Effective leadership and planning are absolutely critical to securing those benefits. There are risks and pitfalls that appear in the first few years after relocation; however, with a good management team, they can be mitigated against.

12:15

The Convener: Thanks very much for that. That was useful. I will kick off with a comment and a question.

You perhaps placed too much emphasis on displacement—the effect of relocation on the local economy. I am doubtful whether displacement is as negative as you seem to suggest. Conversely, you perhaps did not place enough emphasis on the advantages of relocation from the point of view of the economy from which jobs are being moved or of the bigger civil service organisation. If jobs are moved from Edinburgh or London, there is the potential to release housing market effects, employment effects, and so on. You did not seem to give those the same weight as you gave to the other side of the equation. Do you have any comment on that?

Neil Blake: I have, yes. We were keen to achieve some kind of balance. Everybody who does basic economics expects multiplier effects that are large and positive, but whenever we speak to employers in an area, they emphasise the negative side of things. We tried to strike a balance between those views and came to the conclusion that, although there are multiplier effects, they are modest rather than massivebetween 1 and 1.5-and that is consistent with every bit of evidence that we could put together. There are also, unfortunately, displacement effects. In many parts of the country, although not everywhere, housing markets are tight. Some, if not all, housing market segments will experience the displacement effect.

The Convener: You did not put any numbers on what could be called reverse multiplier effects— potential reductions in congestion or the heat being taken out of the housing market. You did not put any numbers at all on those things.

Neil Blake: No, we did not, but that is what we were trying to get at when we said that the net effect on the UK was likely to be positive. We worked out the effect on London in this case and argued that, in the long run, there would probably be no effect on the London job market. The London economy could easily absorb that kind of relocation without any adverse effect. That is what I was trying to get at when I mentioned things such as decreasing transport congestion and more office accommodation being made available. I take your point on that.

Depending on the economy of the exporting location—London in this case—there are big mitigation factors, the opposite of the factors that we are looking at in the receiving location. The key is the long-run prospects of that economy. We were quite optimistic for the London economy, as we would be for most overheated economies one of the reasons that they are overheated is the fact that international demand trends are in their favour at the moment. I take your point on that. We therefore thought that the net effects of the displacement on the UK would be positive. Mr Ted Brocklebank (Mid Scotland and Fife) (Con): Some of us have been out and looked at examples of relocation from Edinburgh to other places. It was interesting to see that some of the issues that you raised were those that were raised with us last week, when we looked at specific operations.

You talk about the benefits of relocation. Were you able to establish whether the organisations that you analysed had a clear objective at the outset as to whether they wanted people to move from the centre to the region or whether they were keen to take the jobs to the region and recruit locally? In one situation that we came upon, only 15 per cent of the people from the centre decided to move to the region. As it has worked out, that has provided valuable local jobs down there. Are organisations always clear in their mind about whether it is people or jobs that they are trying to disperse?

Clive Shore: The short answer is that, in many cases, the organisations have not been clear about that. However, things have perhaps changed a bit over time. When we talked to individuals during some of the earlier relocations, many more people seemed to be relocating. Nevertheless, in some of the more recent examples, it is the posts that are moving. You cited the figure of 15 per cent. In the case of one private sector company to which we spoke, the figure was as low as 10 per cent. In other cases, the figure was 20 to 25 per cent. They try to balance taking staff with key skills with changing the culture and recruiting people locally because it is cheaper.

Dr Elaine Murray (Dumfries) (Lab): You did not indicate the size of the organisations that you looked at. I presume that the relocations were large-scale rather than smaller operations.

Clive Shore: Yes. Nearly all the organisations had over 500 people and most of them had over 1,000 people. I showed a slide earlier that gave examples.

Dr Murray: Did entire organisations tend to relocate or did certain functions remain in the south-east?

Clive Shore: Slide 7 shows that, in the private sector, London Electricity Ltd relocated its call centre from Bexley Heath up to Doxford Park in Sunderland. I previously mentioned Thames Water. Barclays Bank plc moved many of its marketing people to Coventry and many of its finance people to Poole. Amersham International Pension Trustee Ltd took two of its business divisions—lock, stock and barrel—

Dr Murray: Rather than go through slide 7, can you indicate whether you looked at the degree of churn—to which Ted Brocklebank referred—within

organisations? In cases at which we looked, there was debate about the number of people who might move to allow a job to be created, particularly if people had the option of transferring to another part of the organisation. Does the degree of churn in an organisation affect the number of jobs that relocate?

Clive Shore: I do not know. In the public sector, there is much more opportunity for redeployment to other parts of the civil service, whereas in the private sector, people generally get a redundancy package if they do not relocate with the job. There is a greater tendency towards redundancy in the private sector in such circumstances.

Dr Murray: You were not able to put into figures the numbers of people who might change jobs and so on.

Clive Shore: No. However, I can say that in the more recent relocations more posts than people have moved. As I said previously, the number of people who moved was sometimes as low as 10 to 20 per cent, although the average figure was about 40 per cent of people. However, they were much more focused towards higher-end jobs. There is a greater incentive to recruit junior clerical staff locally.

Dr Murray: Did you do any work on the motivation for relocation, which would obviously be different in the private and public sectors? Was the motivation purely the economic benefit to an organisation? Did you find examples in the public sector in which the needs of the area to which an organisation relocated was a factor in the decision to relocate?

Clive Shore: Through Neil Blake's work, we looked at elements of regional policy and regeneration benefits. However, our approach, by and large, was to look at the original business case for a move, understand how the logistical move went and ascertain whether the benefits that were originally articulated were realised.

Dr Murray: In terms of multiplier effects and the creation of jobs, did you find that relocation that was partly determined by the needs of the region to which an organisation relocated had a higher multiplier effect than did relocation that was based only on the economic benefit to an organisation?

Neil Blake: We did not consider that. Strictly speaking, all the public sector relocations that we looked at were ostensibly based on a business case rather than on a regional policy case. As far as official announcements were concerned, Clive Shore's split between the business case first and the policy case second was followed. Whether that was actually the case is not clear, but it was claimed to be the case.

Ms Wendy Alexander (Paisley North) (Lab): The significance for Scotland is that our policy ostensibly states that a business case is not the sole reason for relocation. We have introduced additional criteria in the past six months.

I want to clarify a couple of factual points. When was the report commissioned? When were your findings published and in what form, and who took receipt of them?

Clive Shore: The report was commissioned by the Lyons review team in June 2003 and it was put on the Treasury relocation website in January 2004.

Ms Alexander: Have you had any interest from or contact with the Scottish Executive about the findings that emerged from the report?

Clive Shore: No.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I also wanted to ask about the recent announcement of the Lyons recommendation, which you helpfully explained:

"Departments have identified more than 27,000 jobs that could be taken out of London and the South East, including up to 20,000 jobs for dispersal as a first tranche."

Are you able to tell us what criteria were used to decide which jobs, departments and functions are to be dispersed?

Clive Shore: No. We were commissioned to write a separate report that looked at the elements that we have talked about. The Treasury and the Office of the Deputy Prime Minister review team used the information. We did not have any input into Sir Michael Lyons's final report.

The Convener: The briefing paper includes an extract from the Lyons report.

Neil Blake: Our findings might have influenced the writing of the Lyons report. The only thing that we could point to is a general feeling that some higher policy jobs are the hardest to relocate. People who want to be near ministers are the biggest problem in terms of relocation. They also have the biggest problems in terms of spending lots of time travelling.

The point can also be made that many of the people who claimed to have a policy function did not necessarily carry out that function. They said that they did because they did not want to be relocated. It was important to distinguish between the people who genuinely needed to be near the centre and those who did not. The conclusions and numerical figures are purely from the Lyons review team.

Clive Shore: We could highlight previous instances in which senior policy people have relocated quite successfully. Examples include the Patent Office and some jobs in the private sector.

Fergus Ewing: The Scottish Parliament information centre produced a research paper on

the subject. We are advised that 95,000 jobs were considered for relocation in the Fleming review of 1963, out of which only 22,500 jobs were relocated. The Hardman review, which I think came out in 1973, considered 78,000 jobs for relocation out of which only 10,000 jobs, or one eighth, relocated.

Am I right in saying that your conclusion is that relocation is broadly good for the regional economies to which departments and functions are moved and for the economy as a whole? If one looks at the relocation record in the UK, it is perhaps one of "unfulfilled potential", to use a neutral phrase. Is that a fair way to describe the policy up until Lyons?

Clive Shore: Yes. I agree with how you summarise what we said in our report. There are many benefits to relocation, but there are also risks attached. In some instances, there is also fear and concern. By and large, however, the people who have relocated have benefited from the process.

Neil Blake: A feature of Hardman—although I am afraid that I am not familiar with the earlier relocation reviews—was that it focused on backroom staff who are the easier people to relocate. These days, there is more of a focus on something that we point out as well, which is that there is a bigger economic benefit from moving more senior people, not only the junior people.

To be fair, the last round of relocations, which included the National Health Service Executive's move to Leeds in the later part of the previous Tory Government's period in office, was much more general than the earlier ones and is probably not highlighted quite so much.

The problem is always that, in a democratically run state, things and policies change. When policies have to happen over a period of 10 to 15 years, things can get left behind.

The Convener: We are blithely skipping over the fact that only between 15 and 40 per cent of people might move in a relocation. Has any quantification been made of the impact of relocation on the people who have had their jobs removed and have to find other forms of employment, whether that be in the public sector or elsewhere? The model does not take account of that.

12:30

Neil Blake: No quantification has been made of that. The question is interesting and the answer depends on who the person is. The argument is that people who are well educated and can compete in the labour market will do well regardless and will find alternative employment. At

the bottom end of the labour market, groups with particular disadvantages that have civil service jobs may find it harder to secure alternative employment. Is it the civil service's role to be the employer of last resort, or is it a wider Government responsibility to look after those people? We cannot answer that question. Some groups could lose out.

The Convener: That is an economics-based point of view, but there are other approaches. Relocation might cause individuals and their families significant upheaval that cannot be quantified in terms of whether those individuals find alternative employment. Perhaps the consequences of relocation decisions are not made entirely clear by considering simply the economic outturns. Is that fair?

Neil Blake: That is fair, but it is not unknown for people to move around the country. In a normal career, people move several times. Most people who work in London started somewhere outside the capital. That is probably the case with many jobs in Edinburgh.

You raise a more complex question about the dislocation of people who have settled down and have families. That situation is hard to quantify.

Fergus Ewing: In our inquiry, we are examining relocation policy models. Last week, Dr Elaine Murray-who has spoken to you already-and I went to Ireland to meet various top civil servants, who helpfully explained their policy to us. I am sure that you are familiar with it. It involves a national spatial strategy that is designed to identify the parts of Ireland that could do with the economic stimulus that you described in some detail. The policy also works on the principle of seeking volunteers rather than conscripts-people are first asked whether they would like to move. If people in the department that is moving decline, people in the civil service outwith that department are asked according to a stratified approach. The sequential order in which offers are made was spelled out to us in great detail.

The aims are based on having a coherent national strategy that is triggered by what is good for the nation and not by the business case for the department, and by an interesting and byzantine system of ensuring that people, as well as jobs, move. The aim is that people should move from Dublin-the overheated capital-to the area in question. Those people might not be the people who do the jobs that are to move from Dublin, but they would be people who did other jobs in the public sector in Dublin. That model has a lot going for it theoretically, but we also heard about perceived disadvantages. I have tried to be as succinct as possible. Have you and Experian studied that model as an alternative approach to a relocation policy?

Neil Blake: We did not do that as part of the study for the committee, because Irish relocations are happening at the moment, so they do not have a history to consider, which was one of our criteria. The Irish relocations raise other subjects to think about. If anything, the overheating problem in Dublin is greater than the problem in south-east England, so relocation has a big economic mover behind it. Accommodation costs in Dublin are very high and the wage premium is high. The number of public sector pay disputes has been increasing, which has been disruptive. There is quite a big business case behind the relocation policy.

The other point is that most civil servants in Dublin, like those in this country, started somewhere else in the country. The policy of moving people with jobs, although not necessarily the people who currently have the jobs, means that someone can be moved back to where they came from, where they have family ties. That is attractive. The introduction of that flexibility helps to sell the package to the people who are being relocated. That means that people volunteer, rather than being forced out. That is another element to the Irish strategy. Those factors do not mean that the strategy is not good; they are just other influences.

Clive Shore: We came across one private sector company in the UK that wanted to accelerate the pace of its relocation. It had planned to phase the relocation over two years but worked out that if it was done over six months, considerable amounts of money would be saved. As a consequence, it offered employees £12,000 in additional compensation to move within six months or £6,000 if they moved within 12 months, and had a huge take-up. When we talked to all the public sector organisations we were told that that could not happen, because people could only be compensated for out-of-pocket expenses, rather than receive a lump-sum payment. However, we were taken with that as an example of how to do a move quickly. People volunteered to do the move quickly, and benefited financially because of it.

The Convener: We are getting a bit tight for time, because we have another item, but we will take questions from Jeremy Purvis, Jim Mather and Ted Brocklebank.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): As part of the inquiry, did you examine the private sector and the criteria that businesses use to select areas to which they will relocate? Was there consistency throughout the private sector?

Clive Shore: We looked at that and, in general, there was no consistency. In some instances, the standard of the business case that was prepared for the relocation was fairly poor. It is certainly not the case that the private sector had wonderful

business cases that were beautifully executed. It was quite the reverse in some instances. We found that while relocation destinations may have been dressed up with some criteria, quite a lot of subjective judgments were involved as well.

One of the problems, particularly when operational activities were being relocated, was that people were looking at the short-term benefits, and not necessarily at how things might pan out over the longer term. One call centre went off into a business park, which seemed to go well for a couple of years. However, that business park now has six call centres and staff retention is an issue as people leave for small increases in average wages. Some of those longer-term issues need to be factored into the decision-making process at an early stage. The criteria are not consistent.

Jeremy Purvis: I have one question on clustering. A relocation to my constituency consisted of a lot of back-up staff from the service sector. That has had an impact on the make-up of the local economy by providing a pool of jobs with skills that were not in the area previously. Where public sector organisations have relocated, is there any evidence that private sector relocations have happened on the back of that, because of the impact on the labour force and the make-up of skills within the area?

Neil Blake: There are plenty of anecdotal examples, such as specialist consultancies dealing with patenting setting up in Newport when the UK Patent Office went there. When the Manpower Services Commission, which was part of the Department of Employment, relocated to Sheffield, there was a spin-off of small consultancy companies in the area. Often, such consultancies are staffed by ex-civil servants who have stayed in the area. Therefore, such private sector spin-offs happen.

Clive Shore: The Defence Procurement Agency in Abbey Wood is another example, because organisations that wish to sell things to the Ministry of Defence are springing up around Bristol.

Jim Mather: Do you have any data that will enable us to understand how the UK Government compares, both with other pan-UK organisations and with other Governments, in terms of the geographic spread of its staff and the concentration of jobs around the capital?

Neil Blake: I have some top-line figures. Civil service jobs are disproportionately concentrated in London. They are not particularly concentrated in the south of England but, within the south of England, they tend to be in London. There are other parts of England that have, in quantity terms, an over-concentration of civil service jobs. The

best examples are the north-east and, to a lesser extent, the north-west. What really stands out is the concentration of different grades. London has the vast majority of senior and middlemanagement grades, whereas the north-east stands out with the administrative grades. The issue is not just the number but the type of jobs.

Jim Mather: I have a further question. I have been looking at the bill of materials, and I note the benefits that accrued to the department and individuals concerned. I was struck by the insurance and mission-critical continuity implications in a post 9/11 environment. Are you factoring those into your plans?

Clive Shore: That was not something that we considered specifically with regard to the historic relocations that we analysed, but I know that the Lyons review team factored that issue in.

Mr Brocklebank: In your analysis, did you factor into the equation how many of the dispersed jobs were still within commuting distance of London? We visited one particular location last week, in the pleasant Borders town of Galashiels. Despite the fact that only 15 per cent of the positions had moved from Edinburgh to Galashiels—an hour away—only seven people had actually relocated; the remaining 23 were still travelling back and forward between Edinburgh and Galashiels. In some senses, that seemed to defeat the purpose of the exercise. Is there any similar evidence in relation to London?

Clive Shore: There are a couple of examples involving organisations moving to the west midlands. A lot of the senior executives live to the north and north-west of London and did not have to move. On the subject of travel time following relocation, it was apparent that a lot of the more senior people to whom we spoke had in their minds a two-hour travel time back to London. It was considered important to quite a few individuals to be able to attend a meeting in London at 9 o'clock, and to be back at their desks in their new location by 1 o'clock in order to do an afternoon's work in the office. In other words, going to London did not have to mean a full day out of the office.

We spoke to people in one organisation that had relocated who insisted that people who moved to the new site had to live within an hour's commute of that site. If they did not commit to doing that, they would not get a job at the relocated centre. However, that is the only instance that I have come across of such a draconian edict.

Neil Blake: A lot of the relocations involved long distances, so situations such as the one that Mr Brocklebank described could not happen. However, there are some examples of people moving house to somewhere between their

original base and the new location, the idea being that it would be possible to commute to either place: getting to London would be easier, which would certainly help, although the full advantage would not be enjoyed in the area receiving the relocation.

In many cases where people remain in the same location but commute out, they are often in the jobs market, and do not expect to travel to the new location forever—but that is a negative side, too.

The Convener: I thank you both very much for coming along today and for your evidence, which has been very useful. I wanted to ask a question about development strategy and how that fits with regional clustering, but I might get that to you in writing, if that is okay.

Tenements (Scotland) Bill: Financial Memorandum

12:43

The Convener: The last item on the agenda is consideration of the financial memorandum to the Tenements (Scotland) Bill. The bill was introduced on 30 January 2004 by Margaret Curran, Minister for Communities. To assist us with our scrutiny, we have with us Philip Shearer, a solicitor from the Scottish Legal Aid Board's technical unit, and John Blackwood, director of the Scottish Association of Landlords. Members have before them copies of the submissions from SLAB and the Scottish Court Service. They also have a copy of the briefing paper from the Scottish Parliament information centre.

I invite the witnesses to come to the table. I apologise that we are running a bit later than anticipated, but members had several questions to ask during previous agenda items. Do you wish to make a brief statement to the committee?

Philip Shearer (Scottish Legal Aid Board): No—I am happy for the committee to proceed straight to questions.

John Blackwood (Scottish Association of Landlords): Same here, convener.

Kate Maclean (Dundee West) (Lab): On legal aid costs, Mr Shearer, you say in your submission: "That figure appears reasonable." I assume that what you are saying is that the figure appears reasonable if only 50 new cases are brought a year. Based on my constituency experience, I would have thought that there would be more than 50 cases a year. The very modest figure of £80,000 a year is given for the costs of legal aid, judicial salaries and the Scottish Court Service, but if there were more than 50 new cases a year, the costs could be far in excess of that. In those circumstances, do you think that those figures are reasonable? I hope that we will be able to take evidence at a later date from Scottish Executive witnesses, who might be better able to answer our questions, but I wonder what you think of that estimate of 50 new cases a year. I can certainly think of quite a lot of people who have attended my surgeries who would take advantage of the legislation to deal with their own circumstances, which would give Dundee West a fair proportion of those 50 cases. What is your view?

12:45

Philip Shearer: I am not in a position to challenge the estimate of 50 new cases a year. You will see from the financial memorandum that the Executive estimates that only 10 per cent of

those cases might be eligible for legal aid in any event.

The Convener: We are speaking to the Executive next week, when we shall have the opportunity to deal with that question.

Philip Shearer: I can really only go by the figures that have been provided. It may well be that there is a greater constituency of tenement disputes. I hope that, in my own tenement, we will not find ourselves in court as a result of any common repairs. In the wider sense, however, I can offer the committee no picture as to whether there is perhaps a wider pool of applicants who might exceed that potential case load figure.

Kate Maclean: Is the Scottish Executive's estimate that only 10 per cent of cases will be eligible for legal aid based on information from SLAB? Do you know what it is based on?

Philip Shearer: I do not know anything about the methodology by which that figure was reached. I am certainly not aware that we were asked to provide potential figures.

Fergus Ewing: I suspect that my question is primarily one for the Executive, but today's witnesses can address it if they wish. As I understand it, the bill will not apply to tenements where there are existing real burdens that specify schemes of repairs and where the majority of residents can require a scheme of common repairs to be carried out. What puzzles me slightly about the bill—I say this as a former practising solicitor—is that I have come across very few tenements that lack a fairly comprehensive scheme. Most title deeds set out such schemes in great, laborious, tedious and mind-numbing detail.

Perhaps it is to do with the area of Scotland in which I practised, but what puzzles me is that, in order to work out what the financial implications may be and how many court actions there may be, the starting point must be to ask how many tenements in Scotland lack an existing scheme, and the vast majority of such schemes-in so far as I have read them over the years-are perfectly acceptable. Can you say, based on your experience, what the proportion of tenements lacking a scheme may be? Do you have any impression as to whether there are more such tenements in some parts of Scotland than in others? The situation seems to me to be wholly vague and I have not found any figures in the explanatory notes, policy memorandum or any other document for the number of tenements that will be affected by the bill. I think that there will be very few indeed.

Philip Shearer: I do not really have any feel for that. My gut instinct would tend to be that the potential for litigation would most probably arise in Glasgow and Edinburgh, simply because of the

number of traditional Victorian tenemented properties. Looking at my own tenement, I feel that I have a very exacting system of burdens, and I think that my personal experience would be replicated by most people living in central Edinburgh and central Glasgow, but I really could not comment on the situation in other parts of the country.

Mr Brocklebank: Mr Blackwood, can you give us any details of how much you were taken into the Executive's confidence when it was working out some of the figures? Do you feel that you were fully consulted and that you were able to give as much evidence as you wished to give?

John Blackwood: We were certainly consulted on the policy behind the bill. I was a member of the housing improvement task force, which lobbied for the framework of the bill, so we very much support the bill. We have not had a great deal to do with the financial memorandum, but we have no reason to argue against the costings that have been given.

Mr Brocklebank: Do you agree with the Executive's figures? For example, the financial memorandum states that approximately 10 per cent of tenement flats are unins ured at present.

John Blackwood: We have no figures to substantiate that claim or call it into question. We believe it to be an accurate reflection.

Mr Brocklebank: The financial memorandum gives the ballpark figure of £190 per annum for insuring properties that are worth £100,000. Do you have any other figures on that, or does that figure seem about right?

John Blackwood: We feel that it is about right.

The Convener: This question has probably only a tenuous connection with the financial issue, so it may be a policy issue. The bill proposes to introduce a right of access in the context of repairs and maintenance, but people with disabilities sometimes have issues with getting into their own property. Although the Disability Discrimination Act 1995 confers on disabled people rights of access to public buildings, I am aware of at least one case in which an individual has difficulty accessing the house that they live in because the neighbours will not allow a ramp or other appropriate access facility to be built. Could the bill potentially support that such cases or would that be outside the purview of the bill?

John Blackwood: I think that that would be outside the remit of the bill, which provides access rights for repairs and maintenance rather than for improvements and alterations. That is my understanding.

The Convener: There is an interesting issue about whether the bill should incorporate such

measures or whether another bill would be appropriate.

Fergus Ewing: Happily, I have not filled in a legal aid form for several years now, so I have forgotten the capital threshold limits. Would not most people who own a flat fall foul of the capital threshold limits and therefore be ineligible for legal aid? Will Mr Blackwood perhaps remind us of the broad rules governing entitlement to legal aid for actions in respect of liability in property matters?

John Blackwood: I have not necessarily had experience of accessing legal aid myself. From the landlords' point of view, I cannot imagine that many landlords would even think that they would be entitled to legal aid. Strangely enough, I had a brief conversation earlier about possible entitlement with my colleague Philip Shearer, who would perhaps be better versed in the matter and therefore able to inform you.

Philip Shearer: Given the income eligibility levels for mortgages for properties that are currently on the market in Edinburgh and the west end of Glasgow, I suspect that, for starters, there are serious questions about whether most potential owner-occupiers would be within the income eligibility threshold for legal aid. Whether they are within the capital eligibility threshold really depends on their levels of savings, shares and so on. My gut feeling is that potential owneroccupiers of more recently purchased properties might not be financially eligible for legal aid, but each case will be assessed on its own merits. As we pointed out in our submission, that will interact with the common interest issues that will arise in potential litigation actions under the bill.

Fergus Ewing: Perhaps Mr Blackwood or someone from the Legal Aid Board could send us a note on the entitlement to legal aid for, say, a group of home owners who, having taken a decision to carry out a scheme of common repairs, want to pursue an action to extract payment from a recalcitrant owner who refuses to contribute. That would probably be the common situation. In such cases, who would receive legal aid? Would the defender receive legal aid? If the defender was unsuccessful, would there be a recoupment? Those are standard issues that should be considered in principle. I have no clear idea of how the Executive calculated its figures, but it must have been by reference to an analysis of such a process. We have a short timescale, but if the Legal Aid Board is able to help us with those issues, it would be much appreciated.

The Convener: Rather than give Philip Shearer an opportunity to respond to that question now, as there are probably three or four other technical issues that we want to clarify with both witnesses, I suggest that it might be useful to seek that clarification through an exchange of correspondence. Obviously, we need to bear in mind our timescale, as we will want answers in time for quizzing the Executive officials next Tuesday.

If there are no further questions, I thank the witnesses for attending today's meeting. I am sorry that you were kept waiting a wee while, but I thank you very much for your useful evidence.

Meeting closed at 12:55.

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