

FINANCE COMMITTEE

Tuesday 30 March 2004
(Morning)

Session 2

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FINANCE COMMITTEE

11th 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:

Hamish Goodall (Scottish Executive Justice Department)

Joyce Lugton (Scottish Executive Justice Department)

Edythe Murie (Scottish Executive Legal and Parliamentary Services)

Peter Wood (Tribal HCH)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Terry Shevlin

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 30 March 2004

(Morning)

[THE CONVENER *opened the meeting at 10:02*]

The Convener (Des McNulty): I welcome people to the 11th meeting of the Finance Committee in 2004. I remind members to switch off all pagers and mobile phones. We have received no apologies for today's meeting.

We have been joined by Terry Shevlin, who served with the committee previously and has now returned to us. In consequence, we have lost Jane Sutherland, our senior assistant clerk, who has gone off to work with the private bills unit. She will have to find out whether she is busier there than here. On behalf of the committee, I thank Jane for all the work that she has done. If members are agreeable, I shall send her a letter expressing the thanks of the committee. Is that agreed?

Members *indicated agreement.*

Cross-cutting Expenditure Review

10:03

The Convener: The first item on our agenda is to consider the outcome of the external research that the committee commissioned on economic development. Members will remember that we commissioned research from Peter Wood, and I am pleased to welcome Peter to the committee today. I will invite him to say something about his research for us, and then I will invite members to discuss the issues contained in the research. Members will see from a note from the clerk that we also need to consider whether to embark on a further evidence-taking phase of this inquiry.

Peter Wood (Tribal HCH): It might be helpful to the committee if I were to make a few opening remarks to highlight the principal points arising from the review, which I am sure everyone has read attentively. I was asked, through the Scottish Parliament information centre, to review the evidence on the structure, and on changes in the level and structure, of spending on economic development in Scotland. I interpreted that remit to include expenditure controlled by the Executive as well as expenditure by other bodies.

As I have explained and discussed in the report, for those who have a mind for it, there is no statutory definition of what constitutes spending on economic development. There are quite a number of what we might term boundary issues, on which we might ask, "What do we mean by spending on economic development?" However, I have tried to set out as clear a definition as I can manage in which the primary aim of those elements of spending is to increase or alter the level and structure of economic activity. One could argue that any public expenditure has some effect on the economy—of course it does—but I have interpreted the committee's interest as being in what the spending is intended to achieve. I have therefore sought a definition of economic development spending that is close to that concept. For context, I have also included some analysis of what I call spending that is generally supportive of economic development, and I shall say a little about that.

To cut to the main points, I concluded that, in the year 2003-04, spending by the Executive—I have considered Executive spending first—on activities intended primarily to promote economic development in Scotland amounted to just over £1,300 million. That figure is expressed in the prices of 2002 to enable year-to-year comparison. The largest element of that spending is the budget of Scottish Enterprise, which accounts for just over £400 million of that total. Other important elements

of spending are the budget of Highlands and Islands Enterprise, grants given to business—primarily regional selective assistance—and the budget of VisitScotland, as well as various expenditures under the heading of agricultural and rural development, including direct subsidies to livestock production. As I have discussed in the report, we can debate whether subsidies to agricultural production should be included or not, but the analysis is there and people can take their pick, as it were, as far as the numbers are concerned.

On the principal points arising from the analysis, I would like to draw attention to the following. First, of the economic development spend of about £1,300 million, the greater part—more than 60 per cent—is on activities that I would describe as primarily focused on rural areas. That includes rural development expenditure and the agricultural subsidies that I mentioned before. Rural Scotland, according to the definition provided by the Scottish Executive, accounts for 27 per cent of the Scottish population, so I suggest that that is an issue. Is that the right balance?

Secondly, over the life of the Parliament, what I have termed the primary expenditure on economic development has grown less rapidly than have other elements of spending. Over the life of the Parliament, spending on that form of activity has grown in real terms by about 10 per cent, which is a good deal less than the budget as a whole. There are some problems in year-to-year comparisons, especially with the introduction of resource accounting and budgeting, but I do not think that they detract from the basic message. The proportion of the Executive's budget that is spent on economic development activity has actually fallen from about 7.5 per cent to about 5.5 per cent.

If we consider expenditure on economic development that is what I have termed not primarily rural—or, if you prefer, urban—we see that spending on economic development that is more focused on urban Scotland than on rural areas has been flat. Indeed, if we take the 1999-2000 to 2004-05 budget figures, we find that expenditure on economic development in urban Scotland is 5 per cent less in real terms than it was in 1999. That drop is probably an underestimate because of the effects of resource accounting and budgeting. It would appear that we are reducing the amount that we spend on economic development in the urban areas of Scotland.

Those are the interesting features of the report. On the rural dimension, an interesting two-way shift has taken place. There has been a reduction in direct agricultural subsidies, and expenditure under the common agricultural policy has declined

quite sharply over the lifetime of the Parliament. That has not really happened by the Parliament's decision; it has just happened. However, that decline has been more than compensated for by increases in other forms of economic development activity in rural areas and by rural economic development projects. The upshot has been that rural Scotland has gained spending rather than lost it over the life of the Parliament.

I said before that the other category of spending that I looked at was what I called activities that support economic development. That is arguably a rather more contentious area, because we are talking about transport spending and spending by the Executive on education. Those items are set out in the report. No doubt we all accept that education spending benefits economic development, but that is not the only purpose of education spending by any means. One can debate the merits of including those areas, but the figures are there for those who wish to see them.

The message is that expenditure in that category—which I have called the secondary category, supporting economic development—has risen a bit more rapidly than the primary support has risen. It has still not risen as rapidly as other elements of Executive spending, but it has risen by more than 22 per cent in real terms over the life of the Parliament. The big increases in proportion of expenditure have been in transport, and especially in non-roads transport. That is where we have seen the greatest growth. The biggest element in that category of support spending is the budget for higher and further education, which has grown particularly slowly over the period since 1999.

The consequence of all of that is that the share of the Scottish budget that is accounted for by support activities has fluctuated a bit, but has actually fallen as a proportion of expenditure, from about 16 per cent to 12 per cent, and it should rise to 14 per cent next year. Spending on activities that support economic development, although it has gone up, has gone up by less than the budget as a whole.

In the paper, I also comment on spending by other bodies. First of all, I considered local authorities, which support economic development in a number of ways. They do some of the same things that bodies such as Scottish Enterprise do, providing business advice and business premises. Spending on that kind of direct support to economic activity is quite modest. We have only the most recent figures, which are for 2001-02, and spending by local authorities in that area amounts to £139 million in that year. That is not a trivial amount by any means, but it is a good deal less than the sum of the spending by the other bodies.

It is more difficult to determine the relevance of spending on support activities. Again, I have taken the view that one could argue that spending on education, transport and many cultural activities by local authorities also supports economic development. Such spending amounted to £4,000 million in 2001-02.

The final element that I included in the analysis is spending by the United Kingdom Government. For that, we relied mainly on data from the "Public Expenditure Statistical Analysis" and, of course, on the famous "Government Expenditure and Revenue in Scotland", which is known for some strange reason as GERS. That analysis, which is set out in the report, indicates that spending by the UK Government—by Whitehall departments, if you like—in 2001-02 on a category that is described in the "Public Expenditure Statistical Analysis" as trade, industry, energy and employment, amounted to £475 million. Most of that was through support to employment measures, especially the new deal. Support subsidies to agriculture, fisheries and forestry, or price support through the CAP, added a large sum—more than £1,000 million. Those are substantial elements of spending, but it is arguable, especially in relation to agricultural subsidies, that their effect on economic development is, in a sense, indirect.

10:15

So what is the overall picture? For 2001-02, which is the only year for which data from all sources can be consolidated, a total of £3,000 million was spent in Scotland on supporting economic development. A large part of that—about half—was support for agriculture through agricultural subsidies. If we take out the agricultural subsidies, we are left with spending of about £1,500 million to £1,600 million.

That summarises the main points of my analysis. However, my analysis does not say whether the spending was worth while or justified or what the spending bought or how successful it was. It simply provides an overall picture of the structure of spending and how it has changed in recent years.

The Convener: I thank Peter Wood for the considerable work that he has put into the paper. It is a useful ground-clearing exercise that will help the committee considerably in framing how we take forward our inquiry.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): The agricultural aspect is quite interesting. The paper states:

"60% of this direct spending is accounted for by forms of support to activities which are primarily rural or to rural areas."

However, it also says:

"If CAP support is excluded then the 'primarily rural' share of economic development spending falls to 35%."

Therefore, that 35 per cent of the spend goes on what is, I think, 27 per cent of the population. The relation between the two figures is much closer once CAP is excluded.

Peter Wood: That is certainly true. One must ask whether it is right to say that spending on CAP primarily benefits rural areas, as it might provide benefits to the wider community. That is a controversial issue, but you are quite correct that if we remove the CAP element from the equation—either on the ground that there is debate about where the benefit falls, or that CAP spending does not reflect decisions about economic development priorities but is driven by other considerations—the proportion of the remaining economic development budget that goes to rural areas falls to 35 per cent. That is certainly closer to, although still a little above, the rural areas' share of population.

Mr Brocklebank: The bar graph in figure 3.1, which is entitled "Economic Development Spend 2003-04 £m (2002 prices)", is slightly difficult to understand. "Fisheries" is listed, but it is difficult to see which bar represents fisheries on the monochrome copy that I have.

Peter Wood: Those of us who have access to the colour version will find it clearer to understand. I apologise for that. The fisheries column is the fourth one from the right.

Mr Brocklebank: It is the smallest.

Peter Wood: It is slightly greater than the VisitScotland column.

The Convener: Fisheries is actually the third-smallest column.

Peter Wood: The data for figure 3.1 are provided in the tables at the back of the paper.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): How might the committee move forward in determining how much flexibility the Executive has over the figures? That question probably goes to the heart of the issue, if we accept the argument that growth in both primary spending on economic development and support spending—which is a useful distinction—has been slower than other spending growth. For example, CAP spending is fairly committed, so spending growth on that is to some extent out of the hands of the Scottish Executive. Similarly, higher education spending is fairly determined by how much demand there is for student support. It is also determined by other factors, such as the fact that Executive policy has not aimed for growth in the higher education sector because we are already considerably ahead of England in that area. In several areas, expenditure is committed

such that there is limited flexibility to adjust spending growth. I know that this may be problematic, but could some methodology be found that would provide us with figures for the flexibility of spending?

Peter Wood: That is an important point. You are quite right that the interesting policy issue is whether one could change things and whether one should. Let us start by considering whether policies could be changed. Certain expenditure patterns reflect what we might call demand factors. One reason why expenditure on regional selective assistance has fallen is that there has been a lack of inward investment projects to support. Of course, what you said about CAP is absolutely right.

The answer to your question is not especially complicated. It would be quite possible to deconstruct the tables to examine the extent to which each category of spending was flexible and the extent to which there was scope to change that spending in the budget. To give an immediate answer off the top of my head, the budgets of Scottish Enterprise, Highlands and Islands Enterprise and VisitScotland could obviously be changed substantially by policy decisions. I think that the same is true of rural development spending other than that which is directly connected to agricultural subsidies. On the other side of the equation, it would be hard for the Executive to change the large amounts of spending, such as CAP, that it does not control.

I am not sure that I entirely agree with you about higher and further education spending. I stand ready to be corrected, but I think that the Executive could decide to increase or reduce spending in that arena in various ways. However, even in areas where policy can be exerted, spending patterns cannot be thrown instantly into reverse by turning a tap, because commitments are made for years ahead.

An interesting further area for analysis would be to consider where the scope exists to shift the balance of spending—assuming that one wanted to do that. There may be prior questions about whether the balance is right, but I accept that what you say is true, especially in the agricultural sphere. However, even without the use of an elaborate analysis, it is possible to identify from the documentation which individual spending streams could be shifted and which could not. Perhaps I should have done this, but one can envisage a table or pie chart in which the spending was usefully broken down into what we might call the flexible elements and the inflexible elements.

Jeremy Purvis: I have two further questions, which are perhaps connected. First, what impact do the different policy areas of spend have on the private sector? What are the drivers of and

hindrances to growth? It might be worth having a more evidence-based discussion on what has worked in the past by connecting that with what a devolved Government can do within its own sphere. Perhaps we need comparative data, whether that be from Europe or from historical examples. Have you any advice on where the committee should look if we were to go down that route?

Secondly, economic development success stories in Scotland have inevitably involved the private sector, which has invested more or become more vibrant either in partnership with Government or because it has been stimulated by the work of Government. Is there a way of indicating in which policy areas growth in spending has been matched by private sector growth? Could that be shown for rural areas? The committee has consistently received evidence that there is low investment and low capital spend in the private sector in Scotland.

Peter Wood: That brings us to the nub of the issue. At the opening of our discussion, the convener suggested that the paper was a ground-clearing or baseline exercise, but the fundamental questions—which, happily, I was not asked to answer—are what we get for the spending and whether the spending is effective.

You are right to say that almost all economic development activity is in some way concerned with trying to make business or the private sector—however one wants to define that—behave in a different way by investing more, expanding more and so forth. Therefore, it is right to ask what we are getting for that spending. The analysis that I have produced breaks the spending structure into blocks and invites us to consider them one by one. We can see where the big bucks are going and ask ourselves what we get from them.

My personal opinion—in today's evidence, I am giving my personal view more than anything else—is that there are questions to be considered. Scotland has had a 20 or 25-year experiment with certain approaches to economic development, originally through the Scottish Development Agency and latterly through Scottish Enterprise. It has been some time since there was a fundamental review of that, so it is worth asking what that approach is achieving. On paper at least, we seem to be spending large amounts of money in supporting rural areas, so we need to ask what payback we are getting from that and whether that spending is transforming the rural economy.

I do not purport to have the answers to those questions, but the analysis that I have provided can help to point us to areas that the committee might want to consider, such as questions about

what we are procuring from that spending. Those will lead on to further questions. If, as we said, economic development spending has been pretty flat over the life of the Parliament, is that right? Should the spending have gone up? Should it have been cut back and restructured? Those are the fundamental questions; my analysis merely sets out the blocks of spending that the committee might want to consider.

Linking back to your earlier point, I think that it would be sensible to ask that question most about the areas in which the Executive has the flexibility to change spending. Considering where we can change spending and what we get from it leads logically to the question whether the money could have been spent differently or better.

Dr Elaine Murray (Dumfries) (Lab): I presume that investment in water infrastructure is important for economic development. In table 1, is borrowing consent for Scottish Water included within "SERAD Rural Development"?

Peter Wood: No, I decided to exclude Scottish Water's capital expenditure. I could have included it in the tables, but if I had done so, it would have been categorised as support spending rather than primary spending. The figures for Scottish Water's capital expenditure are available if one wished to include them.

Dr Murray: Perhaps that highlights how difficult it is to put figures on everything that contributes to economic development. It could be argued that some health expenditure contributes to economic development because preventive measures keep the work force healthier than it would otherwise be.

The difficulty of carrying out an analysis such as this is indicated by how you have broadened the scope to include spending that supports economic development. I was certainly pleased to see that the analysis includes spending on things such as tourism, which is obviously an important industry in Scotland.

Is the item "Agricultural and Biological Science" purely the support for the Scottish agriculture and biological research institutes?

Peter Wood: Yes. It includes support for one or two other minor bodies, but it is principally the SABRIs.

Dr Murray: Is that support counted as contributing to rural development?

Peter Wood: I treated it as rural development.

Dr Murray: Depending on the type of research that is being carried out, that spending could arguably be beneficial to other sectors.

Jim Mather (Highlands and Islands) (SNP): I am interested in the data that you have produced,

which are very comprehensive and useful. Has anyone ever compared Scottish economic development spending with what is happening in Northern Ireland, Wales and the English regions to give us a feel for where we rank in terms of implementing policy and spending money?

Peter Wood: Not as far as I am aware. The data are certainly available, so such a comparison could be done.

I am sorry for hesitating, but casting my mind back I recall that some seven years ago I was involved in an exercise that examined comparative spending levels of local government in England, Wales and Scotland. Northern Ireland was not included. That was an interesting analysis so, in principle, such an analysis could be done for economic development spending.

Some guidance is provided by the "Public Expenditure Statistical Analysis", which includes some pretty broad-brush figures for large categories of spending in Scotland, the English regions and Wales. For example, the analysis that I have produced refers to the category "Trade, Industry, Energy and Employment", which is a line that appears in PESA. It is very aggregated, as it is not broken down to the same level as the Scottish figures; however, there is that kind of comparison. I imagine that, with enough effort, that spending could be disaggregated in the same way. I am not aware of that having been done, other than in the PESA tables, but somebody out there who I do not know about may be working away on it.

10:30

Jim Mather: Coming from the position that I occupy, I am of the opinion that Northern Ireland, Wales, the English regions and Scotland are the only places on the planet that are trying to achieve economic development with this subset of tools at their disposal. I do not want you to comment on that, Peter. However, given the excellent baseplate that you have given us, which is very workmanlike and solid, what outcomes do you think that we should be looking for in order to monitor the effectiveness of the spend?

Peter Wood: That brings us back to a point that I made before. It seems to me that this is a good starting point—I presume that this is where the committee wants to go—to ask questions about what we achieve for this level of spending. I do not want to focus on any one part of it, as one could ask the question of any element. However, let us take the development agencies, for example. As I have said before, they have various targets and reporting requirements, which appear in Scottish budget documents and the annual reports of the organisations. Nevertheless, one could ask some interesting questions.

You mentioned the tools that we use. We have adopted certain approaches to economic development for perhaps a decade or more. How has our overall economic performance over that time measured up relative to comparators in other regions? Where have the successes been? What things have been less successful? Should we devote more or fewer of our resources to those activities? Should we spend the money on something else—for example, higher or further education? I am not for a minute suggesting that those are easy questions to answer—they are big questions about getting the right balance of spending. How does focusing heavily on economic development support activity or business support activity compare with, say, investing more heavily in education or infrastructure, for example? Such are the fundamental questions that might lie in the background, although one needs to try to bring them down to more workable questions.

There is a balance to be struck in the kind of structure and spending that we have, between urban versus rural and between economic development support versus education versus support for research and technology. Those areas are worthy of investigation, although one would need to try to frame more detailed, manageable questions within that agenda. Drawing a comparison with other regions could be useful, too.

Jim Mather: I do not know whether you noticed the comments of Nicholas Crafts at the latest Allander series lecture. He suggested that, if we had the same life expectancy levels as the rest of the UK, at 2001 levels that would have meant a 21.3 per cent increase in gross domestic product performance for Scotland. What does that say to you about the noble experiment in which we have been involved for the past 20 years?

Peter Wood: That is a leading question. Taking us back to a wider question, it emphasises the fact that the success of the economy is affected by considerations other than the kind of inducements that we give to business. Ultimately, the performance of the economy depends on the level and productivity of the resources—human and otherwise—of which the economy disposes. Have the activities in which we have engaged increased the productive potential of the Scottish economy and made its people and businesses more productive, as opposed to just transferring money around, boosting one corner at the expense of another? Fundamentally, economic growth depends on the scale and productivity of resources and an interesting question is how far we have focused on increasing the human intellectual and physical capital of Scotland through those activities.

Ms Wendy Alexander (Paisley North) (Lab): The report is a fascinating piece of work. It

exposes some of the dark corners that we have not looked into, including the balance between urban and rural Scotland and the parts thereof on which we are concentrating the spend. I have two minor data points, one point on the analysis and one point on the next steps to make.

I see that the report includes all agriculture research expenditure, including spending on the Scottish agriculture and biological research institutes. It should probably also include expenditure on the office of the chief economic adviser and the economists in the Scottish Executive. I realise that that spend is quite small, but it is missing and I note that for future reference. Similarly, you have included a footnote about how you have calculated the local government spend—which includes expenditure on education, culture and leisure and recreation—and how difficult it is to break that spend down. I take it from that that planning is not included, which is admirable in the circumstances and given the question whether planning is promoting development. Those are tiny data points.

Figure 3.1, which shows the primary expenditure, is hugely helpful, but I wonder whether you could circulate to committee members at another stage the same table minus the CAP figure. We could probably do the analysis ourselves, but we do not have the spreadsheets. It seems to me that the CAP spend is the only part of the expenditure that is not properly at the discretion of the Scottish Executive, although every other element is. To be fair to the Executive, the proper comparison is that there has been, in real terms, a 41 per cent increase in expenditure overall and a 19 per cent increase, if we take the CAP figure out of the equation—rather than a 10 per cent increase—in primary economic development expenditure. That is an incredibly useful baseline for the further work that we will do.

You made the useful observation that 61 per cent of the spend is in rural Scotland, whereas only 27 per cent of the population lives there. To avoid being accused of being anti-rural, I should add that one further level of analysis seems to be important: what percentage of the rural population are we spending the money on? If we add up everyone who is either employed by the agriculture and fishing sectors or benefits directly through those sectors' contribution to the Scottish economy, we are talking about a pretty residual percentage of the population.

Glancing at figure 3.1, I note that the rural expenditure that is concentrated on fishing and forestry comes to about £750 million, whereas the rest—which is spent on the rest of the rural economy and which affects, let us say, the other 95 per cent of people in rural areas—comes to only about £250 million. That perhaps ties in with

the issue that you raised about the balance of spending in rural areas. Knowing how much of that £750 million that is spent on rural Scotland is going to what percentage of the population in those areas might help us to think through that issue, which has received little exposure in the public debate so far.

Finally, in your recommendation 2.6, concerning what we do next, you point out that some subsidies could be seen to reduce national output. The issue is whether we can justify concentrating two thirds of the rural spend on less than 5 per cent of the rural economy. Your thoughts on how we might pursue that issue would be helpful. In your introduction, you mention the need to look at outputs and impacts in the context of whether the intended effect is being achieved. Your thoughts on how the committee could explore that further would be helpful.

Peter Wood: I was nodding away but, for the record, I confirm that the figures on economic development spending by local authorities relate only to economic development activities—they do not include planning spending, which is a much larger sum. Nevertheless, I am sure that you could find a planner who would say that all that they do is support economic development.

I note your point about the research side. I did not include administrative expenditure for the Executive under economic research, but it might be possible to extract that information. I will certainly produce a table minus CAP expenditure and pass it on to the clerk.

The issue around agriculture spending in rural Scotland is important. To say that the spending is being directed at the very small percentage of the population who are employed directly in agriculture is a little misleading. It is arguable that chunks of the rural economy that are not agricultural depend on the existence of the agricultural communities that they service and support. One would want to look at that question.

Moving on from that pedantic point, I think that there is an agenda for an interesting question: what is the changing structure of the rural economy and how much of that change and development depends on agriculture? Over the long term, we have seen buoyant population numbers and employment growth in some areas of rural Scotland. The extent to which that has been to do with the health of the agriculture sector is an interesting matter—I leave it at that.

I am reminded of a conversation that I got into many years ago. We had been reviewing the Forestry Commission on behalf of the National Audit Office. A Forestry Commission economist was arguing that the commission was absolutely vital to the rural economy and that, if it was not

allowed to carry on expanding, the rural economy would be in a bad way. However, we pointed out that, in the Highlands and Islands, over a period in which the level of forestry employment had fallen, employment in the rest of the economy had grown quite rapidly.

I am not making a particular point about forestry now; I am just saying that it is interesting to pose certain questions. We could ask where the wellsprings of growth have been in the economy, which sectors are expanding, how dependent that is on agriculture and whether we are focusing resources in areas where the potential for growth exists. I only raise those questions; I do not presume that there is an answer to them.

Over the past few years, there has been a reduction in spending through the CAP, with spending on other forms of rural development. What the other rural development spending has been on and how far it has been about restructuring the rural economy are interesting questions. The changing structure of rural spending and how well it is attuned to the changing structure of the rural economy is an area that would merit further investigation. That is how I suggest that we look at the issue.

Finally, the relationship between inputs and outputs is phenomenally difficult. One can approach the issue in two ways. There is an argument for what I call the broad, strategic look, which asks where we have been spending, how the structure of the Scottish economy has changed over the past 20 years, what data we have for that, how much of the growth can be related back to where we have focused our economic development effort and to what extent that growth has come from other sources. The other approach is to look in detail at some of the programmes and agencies and seek a fundamental review—which we should have, from time to time—of what we get from spending in those areas, whether it be economic development spend or support for tourism and other programmes.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): I, too, commend the report, which I find fascinating. I want to pursue the allocation of the fisheries spend, which is detailed in figure 3.1 on page 9—the graph showing economic development. The amount that is shown as economic development spend attributable to fisheries looks to be around £50 million. Is that correct?

Peter Wood: That is correct for 2004-05.

Fergus Ewing: Would I be correct in saying that most of that money is accounted for by the decommissioning scheme?

Peter Wood: That is quite true. A large part of it is accounted for by vessel decommissioning. A certain amount of fisheries research is included, but vessel decommissioning has been the major spending activity in that category.

Fergus Ewing: I just wanted to confirm that because, whatever the fishing industry is, it is not a subsidy junkie. Over the years, fishermen have, by and large, received zero subsidies—certainly, zero for fish. It seems slightly odd to include decommissioning as a category of economic development, as the money is being paid not to grow and develop the economy but to restrict capacity and to reduce the effort of the fishing fleet. I wonder whether the case can be made for erasing the lion's share of that £50 million as a category of economic development spend.

10:45

Peter Wood: If money that is spent is intended to change the structure of economic activity, it is in pursuit of economic development objectives. I agree that it does not subsidise continued fishing activity. We have presented the data so that people can extract the relevant items that they wish to. We set the data out in that way because of the ambiguities and uncertainties or differences of opinion about where the boundaries lie. We can cut the cake in several ways. I am happy to provide further tables if members wish to have them to allow them to extract spending strands. That will shift some of the percentages one way or another.

Equally, we could argue about whether UK Government spending on one economic development category that I have used, which includes some new deal spending, is really promoting economic development or is just spending on a social welfare programme. There are ambiguities.

Similar considerations apply to agriculture payments. Do they really support economic development activity or do they just cushion the blows of changing circumstances? The point about vessel decommissioning is valid. Whether to include it in economic development spending is a matter of judgment. It is the major item in the fisheries category.

The Convener: We need to draw the discussion to a close, but Jeremy Purvis has one last question.

Jeremy Purvis: My question follows the point that Wendy Alexander made. It is worth recording that more people live in Scotland's towns with populations of between 2,000 and 20,000 than live in Scotland's cities, so the number of people who were affected in a catch-all consideration of the impact of rural issues would not be small.

You offered to provide a wee bit more data, Peter, which may well be useful. Section 4 of your report deals with local authorities. Much of the economic stimulus in local circumstances is driven by local agencies; for example, table 4.1 touches on local government spending on economic development. Given that local authorities' road spend and tourism spend, for example, link directly to categories of support for economic development, it might be useful to know whether you have mapped increases in local authority spend over the same period as that used for the Scottish Executive. That would allow us to judge whether the spending growth pattern on those matters for local authorities was the same as that for the Scottish Executive.

Peter Wood: I do not have the data for local authorities for as long a period as for the Scottish Executive—I have only three years' data for Scottish local government spending. We could provide information, but it would cover a shorter period.

The urban-rural split is interesting and returns us to the point that Wendy Alexander made. Even definitions of the terms "urban" and "rural" are a little arbitrary. Areas that we term rural can have sharp differences. Closer analysis of that structure is needed.

Ms Alexander: As you know, when we commissioned the report, it was intended to inform the forthcoming spending review, but the committee's work load is such that we will be unable to consider it in detail until after the spending review. Nevertheless, I will give you the opportunity to comment on the overall balance of what is emerging.

Since the Parliament has existed, overall spending has increased by 41 per cent, direct spending on primary economic development has increased by 19 per cent if CAP is not included or 10 per cent if it is and spending on support for economic development has increased by 22 per cent. Those are stark figures.

Do you have observations that will guide the committee's deliberations in the coming weeks about whether those figures should raise concerns in the context of the spending review? The Finance Committee is the only committee of the Parliament that has the remit to look across aggregate spending totals and to reach a view about overall balance. You have provided some wonderful trend data for the past six years and your thoughts about how those data should inform our consideration of the forthcoming spending review would be very much appreciated.

The Convener: I should say that Peter Wood will be giving evidence on these matters as a witness, so we might have a more extended opportunity to seek his views then.

Ms Alexander: I am happy to leave that question until then. However, he might want to give us a taster now of what he might say.

Peter Wood: I was about to say that I would like to have notice of such a question. I want to be careful about how I respond at the moment, because I do not want to say anything too silly.

Striking the right balance with public spending on schools, hospitals, roads and all the rest is not an entirely technical question; indeed, it is fundamentally a matter for political debate and discussion. However, whether by design or not, it appears that a set of priorities has emerged over the life of the Parliament that has meant substantial increases in areas of what might be termed social spending and slower rates of increase in activities that are primarily intended to support the economy's development. We have to ask whether such a balance is right.

I am perhaps straying away from the core topic, but I think that, where large injections have been diverted into an area of spending, one must always ask about its absorbent capacity and whether we can be sure that the extra spending is translating into output. For example, supporting information in previous Scottish Executive budget documents gave rise to such questions in the sphere of health. However, that is as far as I can safely go at the moment.

The Convener: On behalf of the committee, I thank Peter Wood for his work and for answering our questions this morning. Indeed, as a result of our questions, we might need one or two other bits of data.

Members will see that, in points 3 and 4 in the cover paper that was issued for this item, we are invited to decide whether we wish to take the process forward. The paper states:

"It is suggested that this second phase would assess whether the bodies involved in economic development are making optimum use of their allocations. It would seek to assess whether ... the relevant spending programmes are based on realistic financial assumptions, deliver outcomes and are organised and presented in a format which promotes transparency."

Questions about the balance of spending probably tie in with that matter.

In light of Wendy Alexander's comment that we should not embark on any inquiry without first appointing an adviser, it is also suggested that the committee should consider appointing such an adviser to make progress on this matter. Given our work load between April and June, I propose that we use that period to work out the inquiry's remit and appoint the adviser. Indeed, perhaps we should couple both aspects to allow the adviser to contribute to the process of working out the remit. We will then take written evidence over the

summer and look to take oral evidence when we come back from recess in September. Are members content with the proposal? Obviously, we will produce a detailed paper that sets out how we can take the matter forward.

Fergus Ewing: Peter Wood's report is excellent and answers many of the questions that needed to be answered. I remain sceptical about what specifically will be achieved by embarking on such an inquiry. In particular, the report illustrates the difficulty of deciding what spending falls within the category of economic development. That argument was echoed today by Dr Elaine Murray, who pointed out that, although health spending plainly does not fall within the category of economic development, it could in some circumstances be said to contribute to that area.

We are embarking on a search for a crock of gold at the end of a rainbow and our time could be more usefully spent on a whole host of other matters that are more directly related to economic growth and other subjects under our purview. I state that for the record, although I do not expect my view to command majority support.

Mr Brocklebank: I take the exact opposite view to Fergus Ewing, on the basis that some intriguing information has been thrown up today, not least by him.

We are considering the fishing industry and trying to work out whether a £58 million decommissioning scheme can in any way contribute to what is thought to be economic development, particularly when the bulk of the money has gone to the banks and the people are worse off than they were before they decommissioned.

I would like to explore such issues, particularly on the rural side. I find it alarming that 61 per cent of spending is going on 27 per cent of the population, although that spend figure is lower if CAP is taken out. It would be interesting to go deeper into that and to try to find out a little more about what we are dealing with.

It might also be interesting to know the extent to which the relative stability of population in rural areas is a result of the fact that local authority employment is highest in those areas. The fact that those areas employ more and more civil servants and local government officials can hardly be seen as a great incentive to the local economy. I want a little bit more information on that.

The Convener: I suggest that we reflect on what we have got from Peter Wood's work and that we come back—perhaps not at the first meeting after the recess, but possibly the second—with some information about how to proceed and suggestions for an adviser. I propose that we do not establish the final remit for the

second phase until three or four weeks after that. I am seeking agreement that we launch that process. Are we agreed?

Members *indicated agreement.*

The Convener: Good. I thank Peter Wood very much for his contribution.

Tenements (Scotland) Bill: Financial Memorandum

10:57

The Convener: Item 2 is further consideration of the Tenements (Scotland) Bill. I welcome Executive officials to the meeting. Joyce Lugton and Hamish Goodall are from the Scottish Executive Justice Department, and Edythe Murie is from Legal and Parliamentary Services.

Members have a copy of additional information that we received from the Scottish Legal Aid Board following its appearance before the committee at the previous meeting. As the officials do not want to make any opening remarks, we will move on to questions.

Fergus Ewing: I used to spend a huge amount of time studying title deeds for tenement flats. In almost all cases, the title deeds stipulated a scheme for common repairs and improvements. I might have missed it but I could not find in the Executive's papers its estimate of the number of tenements that do not have in their title deeds a scheme governing repairs and their execution.

Joyce Lugton (Scottish Executive): My answer will be fairly lengthy, if the committee will bear with me. There is a wide variety of title deeds and Fergus Ewing is right that most will include some provision for maintenance and management.

Generally speaking, title deeds executed before 1820 or thereabouts will not include any such provision, but any executed after 1820 will have some provision for maintenance. However, Victorian title deeds are unlikely to include provision for management of a tenement, which only started to come in at around the turn of the last century. Therefore, there is a sort of continuum in the development of title deeds.

Victorian title deeds commonly set out schemes for maintenance and say who would be responsible for the maintenance of which common parts and so on, but they do not include provision for decision making. Therefore, although they are clear about who would have to pay, they are not clear about how a decision would be made on whether a repair was necessary.

11:00

The Tenements (Scotland) Bill tries to plug the gaps so that the entire bill, more or less, will apply to tenements that date from before around 1820 and which includes provision for neither maintenance nor management. Where the title deeds for Victorian tenements include provision for maintenance obligations but none for decision

making, that gap will be plugged. In later title deeds, it is less likely that there will be gaps, so the tenement management scheme in the bill will be used less often, but it will plug whatever gaps there are. That is the general background picture.

You also asked for some sort of quantitative answer, and the answer is that we really do not know. The number of tenement flats in Scotland is in excess of 800,000. We do not know how many of them have title deeds that do not cover all of what are regarded as desirable conditions. In a way, the bill is drafted as it is so that it will plug the gaps that exist.

Fergus Ewing: I am most grateful for that interesting answer. If I had a clearer recollection of Professor Halliday's conveyancing notes, I should have remembered much of it anyway.

We are obviously concerned with the financial implications of the bill and I asked my question for the simple reason that I was trying to work out on what assumption the estimates of the financial costs were based. You can correct me if I am wrong, but I thought that they would be based in part on the number of tenements lacking provision for repair and maintenance, which will now become subject to such provision. Was that part of the methodology?

Perhaps you could explain the methodology used in estimating the costs, which are not great and which largely involve court service costs and judicial salaries, as set out in paragraphs 162 and 163 of the financial memorandum, and legal aid costs of £60,000 relating to court actions, as set out in paragraph 164. Perhaps I have fundamentally misunderstood the methodology underlying the allocations in those estimates.

Joyce Lugton: At present, there are tenement disputes that may or may not lead to court cases, and the fundamental point is that the bill will not add to their number particularly. Sections 5 and 6 of the bill are about specific court cases that might arise from the bill. Section 5 deals with the situation in which a majority in a tenement has taken a decision and the minority of owners who do not agree with that decision want to challenge it. However, the grounds for the sheriff finding in favour of the minority will be very restricted. There will be two grounds for such a finding. The first ground is that the decision taken by the majority was not in the interests of all the owners of the tenement. The second ground is that the decision taken by the majority was unfairly prejudicial to one or more of the owners. Those are quite high tests and we think that it is quite unlikely that section 5 will lead to many cases.

Section 6 deals with procedural matters and is quite technical. Again, we think that it is unlikely that there would be many cases under that

section. However, what you may have in mind is the more general situation of a dispute in which the majority of owners want to pursue a repair but others simply do not agree. We do not think that that will lead to any more court cases arising out of tenement disputes than there are at present. At the committee's previous meeting, which we attended, Kate Maclean said that the whole allocation that we had suggested was likely to be taken up among her own constituents. We would be interested to hear from Kate Maclean—if that does not tread on anyone's toes procedurally—which cases she thinks might arise as a result of the bill and why she thinks that there might be a large number of them.

Kate Maclean (Dundee West) (Lab): I am not sure that I suggested that my constituency would take up the whole allocation, but it would certainly take up more than its percentage share as one of the 73 constituencies. In a few areas in Dundee, the owners of old tenement properties want works to be carried out, but considerable numbers of absent landlords do not. The bill might result in more court cases than there are at present because it will give people more rights under the law. I would have thought that solicitors might advise their clients that the bill meant that there would be more point in taking a case to court.

Joyce Lugton: Essentially, the bill gives the majority in a tenement the right to take decisions. That will replace the common-law position, which requires a unanimous decision. However—this is quite technical stuff—if the title deeds include provision for how decisions should be taken, that provision will take precedence. If we assume that the title deeds do not include such provision, which may be the case in older tenements, a majority will be able to take a decision to go ahead with a repair.

Just because a majority takes such a decision, that does not necessarily mean that there will be a court case. Indeed, it is to be hoped that no court case would result. Under the bill, if a majority decides to go ahead with a repair, the minority will have no defence in law against that decision, unless they want to challenge it under sections 5 or 6, which we discussed.

We are fairly sceptical about there being any cases as a result of the provision. The recalcitrant owner who does not want to pay up will not have a defence. Presumably, there might be an exchange of solicitors' letters but at some point along the line the recalcitrant owner will receive advice that he has no defence. Therefore, it must be doubtful that the recalcitrant owner would take the matter to court.

Kate Maclean: There might be particular local circumstances. For example, if the recalcitrant owners have not just one individual property but

large numbers of properties in a certain area, they might find themselves faced with large bills and so decide that it would be worth spending money to try to fight the cases in court.

Joyce Lugton: Would such owners be majority owners within a tenement?

Kate Maclean: No.

Joyce Lugton: In that case, the fact that they owned a large number of tenement properties would not necessarily persuade them to go to court because each court case would be concerned with an individual tenement. In each case, they would be likely to lose if they went to court.

The Convener: The bill requires all flat owners to insure against a list of risks. How will those insurance requirements be monitored and enforced? What penalties will be applied to people who do not comply with them?

Joyce Lugton: Enforcement rights will lie with the other owners, who will be allowed to ask to see their neighbour's insurance policies and evidence that the premiums for those have been paid. Although the Executive and the housing improvement task force—which fed in its thoughts as the bill was drawn up—considered other methods of enforcement, we concluded that enforcement should be left with the other owners because it was difficult to conceive of an external body knocking on people's doors in tenement blocks to demand proof that people had kept their insurance premiums up to date and that they had insured themselves to the right levels. Local authorities would have been an obvious enforcement body, but that would have placed a very onerous duty on them.

The Convener: Although it might happen, I find it unlikely that people would begin close meetings by asking to see one another's insurance policies to find out whether they have been paid for. On a linked issue, is there any provision in the bill for enforcing payment of repairs by those tenants who were against the repairs being carried out?

Joyce Lugton: Could you repeat the question? I did not quite hear it.

The Convener: Is there any provision in the bill for enforcing payment for repairs by those owners who were against the repairs being carried out, or is that a matter for the other owners?

Joyce Lugton: That is as has been discussed: a crunch decision would have to be made when the funds were gathered for a repair. If a majority decided to go ahead with a repair, they would demand payment from those who did not agree with it. Eventually, after pursuit through solicitors' letters and so on, that might lead to a court case, but it is very much to be hoped that things would not go that far.

The Convener: Was consideration given to the possibility of some small court dealing with problems in tenements, as opposed to people having to take such issues into the mainstream court system?

Joyce Lugton: Consideration was not given to referring matters to a small court as such. However, consideration was given to the possibilities of arbitration or mediation. The Executive is very much in favour of mediation being used in such disputes. Consideration was given to including a provision on mediation, so as to encourage people to engage in a mediation process before the matter reached the sheriff court.

It has been decided, however, that it would be better to approach mediation in a more generic way. Tenement disputes are only one of a number of types of civil dispute. The intention is to encourage mediation through, for instance, the training and accreditation of mediators, through a cross-sectoral approach. It is hoped that that will be developed, although not through the Tenements (Scotland) Bill. One possibility that is being considered is that of sheriffs, in considering cases, taking into account whether a mediation process has been gone through before making an award of costs.

Jeremy Purvis: Did you consult registered social landlords in advance of the publication of the bill and the financial memorandum?

Joyce Lugton: I do not know that we consulted registered social landlords.

Hamish Goodall (Scottish Executive Justice Department): We consulted local authorities and the Scottish Federation of Housing Associations. We sent consultation papers to most of the people who received the final report of the housing improvement task force. A lot of those people will be registered social landlords.

Jeremy Purvis: There are many tenement properties in my constituency that an RSL might own, although they might form the minority of owners in a tenement. The RSL could be compelled to carry out repairs but, as we know, they have finite resources. One outcome of the bill might be that social landlords, rather than private landlords, may have to contribute to repairs. Such repairs would be separate from landlords' business plans for the repair and development of their own properties. That is why I asked the question.

Joyce Lugton: The bill contains some safeguards for RSLs. First, the bill defines "maintenance"—it is not just what people might think would be nice to do. Secondly, improvements are specifically excluded from the tenement management scheme. It is more that necessary repairs and maintenance are covered.

11:15

Fergus Ewing: I am grateful for the evidence that has been provided, as I have found it to be useful in understanding a bit more about the bill's purpose and the methodology.

In the financial memorandum, costs are based on an estimate of 50 new cases a year. However, the precise wording in the memorandum is:

"If there are any more additional actions arising under sections 5 and 6, we do not believe that there will be more than 50 new cases per annum."

Would it be reasonable to say that you think that a significant use of the new remedies will be unlikely because the difficult hurdles that you have described must be overcome in order for someone to have any prospect of success? If so, would it also be reasonable to say that there may be rather fewer than 50 cases and that the costs will consequently be less than the modest figures that are given?

Joyce Lugton: That is right. We think that the number of cases that will be pursued under sections 5 and 6 will be small. That does not mean that we think that the bill will not be a useful tool—we hope that its general policy and the general purposes behind it will be used.

Fergus Ewing: I understand that the bill will have useful functions.

I have a final question. The financial memorandum estimates that 10 per cent of tenement flats in Scotland are uninsured, which is a rather frightening figure if one thinks of 10 per cent of 800,000. If such a flat is destroyed, the owners will probably find themselves with a mortgage, but without a capital asset. Is the Executive satisfied that no tenement flats that belong to any local authority or other public body are uninsured?

Joyce Lugton: We have consulted the Convention of Scottish Local Authorities about the position of local authorities. There has not been a completely full response, but I think that 28 of the authorities have responded and have indicated that they insure their properties, although in some cases there is an excess, which varies from authority to authority.

I am not sure about the position in relation to other public bodies. I think that the Crown is excluded from the bill and that the normal practice is for the Crown to cover its buildings and possessions by indemnity.

Fergus Ewing: It occurred to me that some local authorities' flats could form part of the 10 per cent and may be uninsured, unless the authorities have a block policy arrangement that applies to all the properties that they own, as opposed to each particular property being specifically endorsed and

identified in the policy. I thought that, as the point arose, it might be useful to obtain an assurance from the Executive—if not now, then later—that no local authority property of a tenemental nature is uninsured.

Joyce Lugton: We are certainly pursuing the question of comprehensiveness with COSLA. However, as I said, there has not been a complete response. The figure of 10 per cent is based on evidence that we received from the Association of British Insurers.

The Convener: Ted Brocklebank will ask the final question.

Mr Brocklebank: Would you be good enough to guide us through some of the legal aid implications that are involved? I think that the estimated costs were associated with an additional five cases being granted legal aid per year, but in evidence to the committee, the Scottish Legal Aid Board has questioned whether the number of cases would amount even to five. I think that the point that it made is that an application for legal aid may be considered alongside the financial situation of all the others who are concerned in the block. It follows that if only one flat owner in a tenement is eligible for legal aid, that aid might not be granted and the total costs would fall on the other owners in the tenement, which might turn out to be a disincentive for making use of the bill. Extra costs might be involved for the majority of the flat owners.

Joyce Lugton: I am not really qualified to speak about eligibility for legal aid—I think that you have already spoken to the legal aid people. I hope that the possibility of court costs—and legal costs in general—would not act as a disincentive to people using the bill for its policy purposes. If a majority were to decide to go ahead with a repair, the minority would have no defence in law, and that would itself act as a disincentive to the minority taking legal action to pursue the matter.

The bill's intention is to make it easier for repairs to go ahead in tenements, by virtue of majority decision taking. It is not envisaged that it would lead to a great increase in legal actions and it is to be hoped that the question whether some people in a tenement might have to pick up the tab if others could not qualify for legal aid would not hinder the bill's policy objectives in any way.

Mr Brocklebank: My point was that those who initiated legal action but who were not awarded legal aid and would therefore not be responsible for paying for the action might inflict that legal action on the majority, who might decide not to go to law over the matter because of the costs. That might lead to tensions in a block.

Edythe Murie (Scottish Executive Legal and Parliamentary Services): Under the bill, the decision to sue would not be a scheme decision. It

would be for each owner, not the majority, to decide how to pursue the rights and obligations that the bill would confer. Most tenements currently have schemes of burdens that confer rights and obligations which, as far as I am aware, do not generate a huge amount of litigation. We hope that the bill, by clarifying rights and obligations, would in some cases reduce the scope for litigation.

The Convener: On behalf of the committee, I thank the witnesses for coming along to answer our questions.

Spending Review 2004

11:22

The Convener: Item 3 is consideration of our budget adviser's paper on the Scottish Executive's budget strategy. I think that the paper is the third in a series of papers that the adviser has produced to help us with the budgetary scrutiny process. I invite Arthur Midwinter to comment on the paper, when he is ready.

Professor Arthur Midwinter (Adviser): I produced the paper first, because some members of the committee are new to the Parliament and others are new to the Finance Committee and I thought that, as we are about to start the spending review process, it would be useful to provide members with a short review of how priorities have changed since the Parliament was established. Secondly, I will from tomorrow be officially reviewing the new annual evaluation report on the committee's behalf as the start of the process, so I thought that it would be useful to have a steer on the committee's view on some of the priorities and the extent to which we should adopt a reactive or a proactive approach.

The paper says that spending priorities are at the heart of political choice in the budget process. The important point about tomorrow's publication of the new AER is that that will represent the first stage in the implementation of the changes to the budget process that were agreed with the Executive. The AER will contain first, a new statement of priorities and secondly, a comprehensive review of performance against the targets in the document, "Building a Better Scotland: Spending Proposals 2003-2006: What the money buys", as well as updated information on the priorities that were added as a result of the partnership agreement. Thirdly, the AER will contain the spending plans for the 2005-06 budget, which we will scrutinise this year, and some updated information about additional funding in the spending plans since last year's draft budget.

The previous session's Finance Committee took the view that the Executive ought to state what was described as "a systematic priority framework". That committee made its recommendations before the publication in SR2002 of the BABS document, to which we are still working. SR2002 led to the first such statement, by which I mean the statement of the five functional priorities and the two cross-cutting priorities.

The final stage of the process under the former Finance Committee was that it took the view that it welcomed the introduction of the framework but

said that the Executive still had too many poorly defined priorities. The committee said that it was difficult to know what something's being a priority meant in terms of resources.

I will summarise the changes. "Investing in You: the Annual Report of the Scottish Executive", which was published in 2000, was the first formal statement of priorities. The quote that I included in my paper from the late Donald Dewar suggests that health and education were the two top priorities at that time. Donald Dewar also said:

"The theme behind the budget is social justice."

The following year's spending plans, which were produced by Jack McConnell—who was at that time the Minister for Finance—had hospitals, schools, crime and enterprise culture as its four priorities. The spending plans document in 2002 had infrastructure, investment and tackling the problems of deprived areas as its priorities.

The previous session's Finance Committee was keen to get some stability into the process and to be clear what the Executive's priorities were. It could be said, however, that having three First Ministers over the period probably contributed to the issues that the committee raised.

As I said, the current BABS document has a five-plus-two focus—five fundamental priorities and two cross-cutting themes. I find that structure problematic in terms of effective targeting of resources and monitoring of results.

There have also been occasions in the lifetime of the Parliament on which, because of the immediacy of a problem, something has emerged as a "top priority". The examples that I give in the paper are children and growing the economy. It still puzzles me how we are supposed to know whether something is a priority and how we will know whether it is being treated as such. I am also puzzled about how we can monitor and audit the cross-cutting priorities.

The Midwinter view is that strategic priorities should be thematic and that they should be used as the wider criteria for evaluating spending proposals. That means that it is not possible for the Executive just to say that it will increase the number of teaching staff in schools—which I think is on the agenda at the moment; rather, it must also say that that will contribute to closing the opportunity gap and to an improvement in the general level of attainment in schools. Wider questions need to be asked about the spending proposals.

When I drafted the paper, I was not aware that the committee would debate it the day before the new AER came out. It would still be helpful for me to have some preliminary guidance on the committee's view of the Executive's current

priorities and about whether we ought to be thinking about and suggesting to the Executive any other strategic priorities that it has not used to date. It would also be helpful to have the committee's view of its role in the redistribution and realignment of budget allocations in the budget process. The consultation on the document that comes out tomorrow will provide an opportunity for the subject committees and the Finance Committee to make recommendations for spending priorities. It would be helpful to have the committee's view on that. Basically, the document continues to support the argument that a yet more rigorous and consistent approach be taken.

In a footnote to my paper, I refer to the discussion that took place at the meeting of 2 March about the committee's links with the subject committees. In the past, the Finance Committee used its members as reporters to other subject committees. The reporters provided a link between the Finance Committee and the subject committees. If there are issues of concern to the committee—as was stated at the last meeting—members might want to think about doing that again in this session.

The Convener: Thank you for that outline, which highlighted the issues that we have to take on board as we go through the spending review process and the next annual budget round. Do members want to comment or offer guidance on the way in which we might want to take forward some of the issues that are under debate?

Jeremy Purvis: I have some guidance as to how we should proceed. In the work that we have been doing up until now, we have been trying to get greater transparency in the budget figures and in the breakdown of capital spend. I have asked a number of parliamentary questions on the proportion of proposed budget headings that will go on staff costs. Now we will have information on performance indicators and performance over the previous year, which I know we have had in previous years.

11:30

Arthur Midwinter's report says that he is working up guidance for other committees, which will be useful. Given the information that you will be seeing, will it be possible in our data to have a much clearer layout of the budget forecast to show under which existing priority items come; the proportion of capital and whether there is capital slippage; the proportion of staff costs and forecasts—which raises the question of how much flexibility there will be for a committee to exert influence; and whether performance indicators have been published to show the performance of the previous year in respect of outputs? That might be a vain hope. I do not know how that

information could be worked up or whether it would be useful.

Professor Midwinter: Do you mean in cash terms?

Jeremy Purvis: Yes.

Professor Midwinter: Quite a few issues arise there. The questions that you asked assume that the process is integrated and that Andy Kerr's rhetoric about there being a link between the grand objectives, the allocation of resources and results happens in the real world. We have seen no sign that it is. We are still working up a paper on capital expenditure, which Wendy Alexander asked for. My understanding is that this week the Executive will deliver to me data on capital expenditure, which will allow us to complete that paper. There will be a table on capital expenditure, as there always is, but it will be in another document.

Ms Alexander: I presume that it will not include the trend data for the past 10 years, which is what we asked for.

Professor Midwinter: No. The paper that we produce will try to outline the trends using the data that the Executive gives us. The trends will not be set out in the document that is produced tomorrow.

Jeremy Purvis asked about staff costs. He has probably worked, as I have, in an organisation that has a real budget with all such costs set out. The Scottish budget is really funding programmes for other agencies, so we tend not to get staff costs broken down in a way that might be helpful. The targets are more likely to be those that were approved as the equivalent of the results, such as reducing death from heart disease and reducing the crime rate, rather than financial reporting of outturn, which tends to be done at a different time of the year. I do not know whether that helps you, but most of the information that you are looking for will probably not be in the document tomorrow.

Jeremy Purvis: I am not a member of another committee, but I would have thought that it would be useful for other committees to get a broader picture of the relevant department, which would tell them not only the budget forecast but the elements that are already committed, performance in those areas and the performance and outputs of the department. We should be pressing for that kind of information. We can confer later about the response that I got to my parliamentary question, which did break down staff costs for each department. That sort of information might be useful, even as an indicator, as it would let the other committees see what makes up a particular section of the budget. I was just hoping that the information could be more co-ordinated.

Professor Midwinter: When we were trying at official level to work out how the revised format might appear, we discussed financial and performance reporting. Remember that the documents were set in 2002 for the budget of 2003-04, which has just ended. The view was that it would be two years hence before we could get any robust financial output data. For that reason, the Executive officials felt that it was premature to include any kind of output data in the document, but they will announce it in June or July when they calculate end-year flexibility.

There is a similar problem with some of the performance targets that were set using a similar baseline. Some of them will record progress but most of them are targets for the four-year period: they are performance targets up to 2005-06. You will get some kind of commentary on how well the Executive is meeting the targets that were set for 2005-06.

Ms Alexander: Will it be possible for Arthur Midwinter or the clerks to provide us with a note that states the recommendations that we made in the second stage budget report in the first week of December—the recommendations to the Executive on what it was to produce—and which also states the Executive's response? I think that we had a discussion in the middle of February during which I asked for clarity on what we are spending in terms of long-term trends and capital. I also asked how our figures compare with United Kingdom figures. I do not know whether the Executive was written to—that information will obviously be in the *Official Report*, but what I said was a third attempt to pursue the same matter. Other committee members must be as perplexed as I am.

I would like a note of the recommendations that we made to the Executive in December and a note of what it committed to in response. Obviously, after eight weeks, the Executive has to respond. Also, could there be a check of the *Official Report* to ascertain what we committed to in February? I think that we had a long discussion about what we were spending and what we were achieving for the money. I was suggesting that our discussion on inputs, outputs and outcomes might wait until next year. However, our absolute objective for year 1 of the committee should be clarity on long-term-trend spend and capital spend. We have to know whether the data that are available on those issues match those which are available in the rest of the UK, because that would be a reasonable benchmark. Now—

The Convener: We did have a paper on the recommendations that we made and the responses from the Executive. We can reissue it if you like.

Ms Alexander: A wide variety of issues arose from that. What we did not get was what we asked for in December. Arthur Midwinter is telling us that the Executive will publish the AER tomorrow, but I do not want to be coming up with alternative priorities for the Executive. I want the committee to have one focus. Why do we have to go to Peter Wood to provide six-year trend data for what the Executive spends? Those data should properly be the basis for any consideration of alternative priorities.

The Convener: The minister has indicated that the Executive will produce trend data. I am not sure what point it has reached.

Professor Midwinter: The Executive will produce two papers separately. They are not part of the budget. One is the time-series data on spending which, as far as I am aware, the Executive is still working on. That paper will be with us soon.

Ms Alexander: We started discussing the issue in September last year and we wrote to the Executive in December. We need clarity on what is being delivered and when. We returned to the issue in February. I am aware that subject committees are now embarking on their considerations of the spending review; however, we are asking them to do that in the absence of those data.

Professor Midwinter: Production of those data is imminent. It is a fortnight since I spoke to the Executive and the paper was still being worked on. When we had our first discussion, the Executive was concerned because there were three different phases of RAB. That turned out not to be problematic, because it is easy to de-RAB things. What did prove problematic was the frequency with which components of budgets are transferred to other budgets. That involved a lot of recalculation, which was time consuming.

The second paper that the Executive will produce for us will be on the spending review context. We had originally wanted that to be a chapter in the budget document, but the paper will be part of the presentation by Richard Dennis and Richard Wilkins.

Ms Alexander: It is important for the committee to try to keep a record of what we asked for in December and where we are now. It may be that we will have all the information that we need by June: if so, that will be great. However, if the committee is not to mirror the chaos of constantly changing priorities, we need to be consistent in what we request.

The Convener: I suggest that the Scottish Parliament information centre look into that with Arthur Midwinter.

Professor Midwinter: We can supply the factual part of Wendy's request. We will chase up Executive staff to see what the timetable is. I have been told that I will get the capital figures this week. We can provide for the committee a note that says where we are.

Ms Alexander: I think that the timetable has probably also slipped in relation to providing comparisons between what is available in the United Kingdom and what is available in Scotland. We must check that we have the same kind of trend data and capital spend data that are available for the UK.

I am keen for the committee to play a scrutiny role. The paper says that

"the Committee would want to consider budgetary redistribution and realignment to fund priorities",

but I do not think that that is our primary task. Our primary task is to bring transparency to what the Executive is doing and to scrutinise it. There would perhaps have been merit in the convener reiterating some of what is in the paper. I think that the debate could be advanced by our pointing out that priorities have changed five times and that there are in the most recent budget document five priorities plus two cross-cutting priorities, neither of which are growth or children, although those are—allegedly—also priorities. That is the proper role of the committee. The reason why we cannot make amendments to the budget bill without amending the whole budget is because our job is to scrutinise the Executive in respect of finance. It is not our job to say that we wish that we were in there so that we could do things differently. On the scrutiny function, Professor Midwinter's paper is enormously useful. However, it is a shame that the AER document is being published tomorrow, because Des McNulty will not have time to comment on behalf of the committee.

The Finance Committee's important role relates to scrutiny. We are in the unique position of being able to make clear the frequency with which policies have changed and the fact that there are now five official and two unofficial priorities. I hope that tomorrow's document does not reflect that. Has it been publicly announced that it will be published tomorrow?

Professor Midwinter: Andy Kerr will make a statement tomorrow. When the media contacted me yesterday and asked me to comment on the document, I assumed that it would be the annual evaluation report because that is the date that we were given for that.

Ms Alexander: That makes it impossible for the committee convener to state that we would like progress to be made on the issue of there being five official and two unofficial priorities.

The Convener: Standing orders say that the document must be published by a certain date.

Ms Alexander: In that case, we are on the eve of publication. There is a case to be made for our raising the fact that there are five official and two unofficial priorities and that we hope that something is said about that tomorrow.

The Convener: That is right. However, the problem is that we will be driven by what is in the new document as soon as it comes out.

Dr Murray: I want to echo some of the things that Wendy Alexander said. Our job is not about determining other spending priorities; it is about seeing how well the Executive is doing the job that it claims to be doing. Equally, although I know that there might be directions about what the subject committees are supposed to do in relation to the budget, I do not think that the role of the subject committees is to state what the spending priorities should be in the portfolio that is relevant to them. Most committees will not be at a stage at which that can be done. The Education Committee, on which Wendy Alexander and I serve, has spent a great deal of time on the Education (Additional Support for Learning) (Scotland) Bill and a small amount of time on its child protection inquiry. It is not in a position to overview the education budget and to decide where the priorities should be. I imagine that, at the moment, the views of the members of the committee would be coloured by their experience of the Education (Additional Support for Learning) (Scotland) Bill.

I think that we should do what is mentioned in paragraphs 6 and 8 of the report. The Executive has determined its particular priorities, although they change. We should ask it how it determines its targets and how those targets link to what it says its priorities are. We should ask what it is achieving, how the money is following the targets and how the level of priority has been determined. We need answers to those questions.

I am interested in Peter Wood's paper, but I am frustrated by some of the analyses because, although they tell me how much is spent, they do not tell me how decisions are made. I cannot tell whether they are made strategically and analytically or whether someone has simply thought that, for example, having an increased number of teachers is bound to be a good thing. I would like more in-depth information on how such decisions are made, but that might be unachievable.

Professor Midwinter: On the first point, we are talking about something quite fundamental. Both Wendy Alexander and Dr Murray have spoken against the agreement that was reached between Parliament and the Executive on what the role of committees would be. Under the financial issues

advisory group, the view was that there needed to be a more consultative system in which the committees were consulted about priorities.

I am quite happy to be the facilitator of anything that members want the system to be, but we really need guidance on that. In every other budget year, we have rehearsed the argument from the agreement and said that it is the role of the committees to give advice on priorities within their portfolios. If members do not want to do that, Parliament needs to have a debate about it.

11:45

On targets, my view is that the targets are not particularly helpful as they stand. The problem with some of them is that they are outcome measures. The big publicity over the past couple of weeks has been on the impact of lifestyle on health. We have discovered that, for years, health has been getting better, but is it because of money that is going into the NHS or is it because of lifestyles? The same is true of crime.

At the other extreme, a number of targets are listed that are just about the process of the finance and public services remit; there are seven or eight targets that say that the Executive will set up a best-value regime or a prudential regime for local authorities, which spend £8 billion, but there is nothing about services.

Dr Murray: I want to return briefly to the point that Wendy Alexander and I were making. I appreciate the fact—and I tried to allude to it—that the question is being asked because that is what the committees were expected to do back in 1999. However, over the past five years, how often have committees suggested alternative priorities and how often has the Executive taken any heed of what the committees have suggested? Is it an empty exercise?

Professor Midwinter: It has happened only in recent years, since the committees were driven towards it. We geared the information around getting the committees to make recommendations. In the first year in which we tried that, we got 16 recommendations, of which 12 were accepted. However, before that, there was only one spending recommendation in three years.

Dr Murray: Some of the recommendations were not about how the money was spent; they were about how the expenditure could be reported to make the process more transparent.

Professor Midwinter: There have been different kinds of recommendations, and many of them have been about the budget process. However, in the last year of the previous Finance Committee, we produced a list of spending recommendations that were culled from the

subject committees, as well as recommendations on how the Executive should report the expenditure and what information the committees need. Before that, one or two spending recommendations were made in three years. The last year of the previous session was the first year in which we got a series of spending recommendations.

The Convener: In a sense, both arguments are correct. If we do not have the transparency to aid scrutiny, it is hard for us to make recommendations. We have to focus quite a lot of attention on getting transparency into the scrutiny process. At the same time, if a consensual view is emerging in committees about how the resources should be allocated in their areas, we should encourage them to express that view. Ultimately, that would help us to deal with some of the issues that Peter Wood has raised.

John Swinburne (Central Scotland) (SSCUP): In the document, there is a scant reference to my generation in paragraph 5.

Professor Midwinter: Scant?

John Swinburne: You say that the Executive aims to promote social justice

"through community care and the warm deal for the elderly".

Wendy Alexander talked about four-year plans. Four years ago, the Executive promised to spend £340 million but, to date, it has spent only £109 million without a murmur about it from anyone. Where is the shortfall? Its target was for 144,000 houses to be sorted out with central heating, yet it has come up with a figure of 39,500—about 100,000 short. The committee should be ensuring that, when the Executive makes financial promises in Parliament, it backs them up with deeds. We are falling far short in that area.

Professor Midwinter: The target will be in the new budget document and there will be a report on progress. You will have the ideal opportunity to comment at that stage.

Fergus Ewing: Professor Midwinter's paper shows clearly that the Executive is not addressing its stated priorities—although its priorities constantly change and fluctuate, rather like the line between the seashore and the sea. Children were the top priority, but they have been demoted and the top priority is now economic growth. It is, "Goodbye, kids—hello, growth."

Mr Brocklebank: And, "Hello, big bucks."

Fergus Ewing: I am interested in the comments that Wendy Alexander and Elaine Murray made about the role of the committees. It is difficult for a committee to come up with specific costed proposals; however, it is plainly less difficult for it

to come up with and justify a proposal that funding for a particular budget area should be increased or reduced. It is also possible for a committee simply to argue that specific policy initiatives should be included or, indeed, excluded from the budget. All those things legitimately fall within the committees' purview and responsibility.

Elaine Murray's argument that it is difficult for a committee to do that does not detract from the fact that the Parliament has recognised that it is perfectly legitimate for committees to play such a role. During my time on the Enterprise and Lifelong Learning Committee and, in particular, during my two-year membership of the Rural Development Committee, I found it extremely difficult to understand how, for example, various components of rural development spend in Scotland interacted, not least because the matter was complicated by the fact that much of the money emanated from Europe and was siphoned through Whitehall on its journey to farmers' bank accounts.

Committees might feel a bit daunted by the scale of such a task. However, I hope that this year subject committees can receive simple concrete advice—I am not sure from whom, but I hope that this committee's adviser will have a key input into the process—to make it clear that they can come up with specific alternative proposals and that any advice that they might want about costing those proposals can be made available. I should point out that the timescale is short if the reports are to be submitted by the middle of May.

It is imperative that the lead committees are presented with the option of coming up with their own proposals whatever they might be and in whatever detail they can muster in the short time available. As Elaine Murray pointed out, that will be a difficult task, but I find it hard to see how this process will achieve anything, or will become more than an annual academic exercise that is carried out by rote, if the committees do not come up with more ideas.

As far as priorities are concerned, the Executive should simply stop talking about having any. After all, it plainly cannot bring itself to say that something is not a priority. It is a bit like the old saying that when a politician says "Yes," he means "Maybe"; when he says "Maybe," he means "No"; and he will never say "No," because that means that he is not a politician.

Professor Midwinter: Currently there is an agreement that if subject committees want a proposal to be costed precisely, Executive finance officials will carry out that costing. One or two proposals have been costed in the past; for example, figures were produced for some of the health initiatives and a cost was added.

However, instead of providing detailed costed options, committees have mainly decided to go down the other two routes that Fergus Ewing highlighted, by saying that any extra money should be given to programme or area X. At the moment, I am going round the subject committees and we will soon draft some guidance. Given all the changes to committee memberships, committees probably need to be made aware that the facility exists to cost proposals.

Fergus Ewing: When would we expect the lead committees to complete their work on this matter? Are we talking about mid-May?

Professor Midwinter: Yes, although some have started work on their reports. For the past month, I have been issuing briefing papers to committees and having sessions with conveners.

Fergus Ewing: So if a committee wants to take evidence on any issue that it wants to pursue, it will have to get its skates on immediately after we come back from recess on 19 April.

Professor Midwinter: Some committees and I have had preliminary discussions. They might well have decided who they want to give evidence and will be sending out letters now.

The Convener: I see that Jeremy Purvis and Jim Mather want to speak. I am anxious to get on, because I want to draw some conclusions from the discussion.

Jeremy Purvis: I will be brief, but it is worth stressing that the role of the Finance Committee in interacting with other committees is a two-way process. They help us to fulfil our scrutiny role. I do not agree that we should be reactive and only scrutinise what the Executive has done or is doing. The committees could have information in table form or another form that shows the budget priority area, the budget figures, the percentage that is capital, the EYF, slippage in the previous year, the percentage of staff, the percentage increase on the previous year, and the stated progress on targets. That would help them to fulfil their role and would give us a role in enabling them to understand the situation with the budgets.

If our role is to do with scrutiny, we are fundamentally limited. At the moment, we scrutinise budget documents and legislation that comes before us. We have spent an inordinate amount of time today on a bill that will cost the taxpayer £100,000, whereas things are going ahead in departments that will have a massive effect on the public budget, such as the review of infection control and health, the changes to drugs budgets and the consultation on pharmacy contracts, to name a few. Unless we can work with subject committees more closely and allow them to come back to us with issues, our scrutiny role will be seriously limited.

Jim Mather: I find the priorities to be woolly. They are in the land of declaration of intent and, as has accurately been pointed out, sometimes are not worth a lot. In the corporate world, there is a tendency to try to manage towards certain outcomes—turnover, market share, margin, cash position, balance-sheet strength, the dividend, the share price and so on. Even in the national UK Government, there is management towards certain concrete targets, whether it is achieving surplus or deficit to plan, making the borrowing target, achieving growth, getting a certain exchange rate, holding a certain interest rate or whatever. Why are we sitting here with woolly priorities and not a small subset of concrete outcomes?

The Convener: That is not a question for Arthur Midwinter; it is a question for the Executive.

Professor Midwinter: There was no requirement on the devolved Administrations to sign up to the public service agreements—which may be what are being referred to—between the Treasury and Whitehall departments. We have targets that are a Scottish version of those agreements, but they are not as systematically developed as Gordon Brown's regime in Whitehall. However, you will get conflicting views on how effective they are. As I understand it, the conventional wisdom in Whitehall is that there are too many targets and they should be reduced.

Jim Mather: The point is that as we move forward and get time-series data on, for example, growth figures over the period, population movement figures over the period, and economically inactive figures over the period, it will not require high-grade journalists to start to draw conclusions.

The Convener: I will draw us towards where we need to go. First, we should pick up Wendy Alexander's point and quickly pursue the Executive for the information that we asked for before, and ensure that it is filtered into our scrutiny and, ideally, to that of the subject committees.

Secondly, as a committee, we are not yet in a position to stipulate our view on priorities. We could do with a discussion, after the AER has been published, on the new version of the Executive's priorities—if the priorities are revised—and how they will fit in.

One of our objectives should be to streamline the scrutiny process. No doubt some of the issues that we raised previously and the additional information that we have asked for will help us to do that, but when the AER comes before us, we will see the extent to which transparency has improved as a result of our recommendations. We should reflect on that in the evidence that we take and the conclusions that we draw.

On the guidance that we give to committees, we must help them to scrutinise the information that lies before them and provide the clearest possible information. Notwithstanding Elaine Murray's point, we must tell committees that if they want the budget in their area to be shifted around, they can suggest that. The extent to which they are in a position to do that may not be as far ahead as we would like, but we are making progress in that regard, and I hope that we will be able to make further progress.

There is one practical issue: Arthur Midwinter will have to write guidance to assist the subject committees. It is now just before the recess, but I do not want us to lose two weeks, so does the committee agree to my signing off his draft of the guidance?

12:00

Jeremy Purvis: Can it be circulated by e-mail?

The Convener: If people respond to it.

Jeremy Purvis: I promise to respond.

The Convener: The point is that that can take time. We will circulate it quickly, but I am not sure that it will be ready before Friday.

Professor Midwinter: It might be. It depends whether there are any major changes to the AER from the version that I have seen. I will be going over it on Thursday morning. If there are no major changes, I could probably have a first stab by Friday.

The Convener: My intention would be to sign it off on Friday, if that is possible. There might be a relatively short period for members to look at it.

Item in Private

The Convener: Item 4 is to decide whether to consider the draft report on the financial memorandum to the Tenements (Scotland) Bill in private at our next meeting. Is that agreed?

Members *indicated agreement.*

The Convener: We move into private session to consider a further draft report on Scottish Water.

12:02

Meeting continued in private until 13.25.

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