

ENTERPRISE AND LIFELONG LEARNING COMMITTEE

Wednesday 5 April 2000
(Morning)

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CONTENTS

Wednesday 5 April 2000

Col.

BUDGET PROCESS	677
LOCAL ECONOMIC DEVELOPMENT	689

ENTERPRISE AND LIFELONG LEARNING COMMITTEE

8th Meeting 2000, Session 1

CONVENER

*Mr John Swinney (North Tayside) (SNP)

DEPUTY CONVENER

*Miss Annabel Goldie (West of Scotland) (Con)

COMMITTEE MEMBERS

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

*Nick Johnston (Mid Scotland and Fife) (Con)

*Marilyn Livingstone (Kirkcaldy) (Lab)

*George Lyon (Argyll and Bute) (LD)

Ms Margo MacDonald (Lothians) (SNP)

*Mr Duncan McNeil (Greenock and Inverclyde) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

*Elaine Thomson (Aberdeen North) (Lab)

*Allan Wilson (Cunninghame North) (Lab)

*attended

WITNESSES

Robert Crawford (Scottish Enterprise)

Graeme Dickson (Scottish Executive Enterprise and Lifelong Learning Department)

Evelyn McCann (Scottish Enterprise)

Wilson Malone (Scottish Executive Enterprise and Lifelong Learning Department)

Colin Reeves (Scottish Executive Enterprise and Lifelong Learning Department)

Alan Sim (Scottish Enterprise)

David Wilson (Scottish Executive Enterprise and Lifelong Learning Department)

Sir Ian Wood (Scottish Enterprise)

Stephen Woodhouse (Scottish Executive Enterprise and Lifelong Learning Department)

CLERK TEAM LEADER

Simon Watkins

SENIOR ASSISTANT CLERK

David McLaren

ASSISTANT CLERK

Mark MacPherson

LOCATION

Committee Room 1

Scottish Parliament

Enterprise and Lifelong Learning Committee

Wednesday 5 April 2000

(Morning)

[THE CONVENER opened the meeting at 09:07]

The Convener (Mr John Swinney): Good morning. I call the eighth meeting of the committee this year to order. We have a full agenda this morning, so I thank members for their early arrival. The early start is necessary to deal with the volume of business that we must get through if we are not to have another meeting before the recess.

Pagers should be switched to silent mode and mobile phones switched off.

Before we start on the first item of business, I would like members to note that item 3—consideration of the draft of the final report on the local economic development inquiry—will be conducted in private.

Budget Process

The Convener: Item 1 is the budget process. Members will be familiar with the Public Finance and Accountability (Scotland) Act 2000, which provides an important place for committees in the consideration of departmental budgets as part of the Executive's overall budget. Late last week, we were circulated with extracts relating to enterprise and lifelong learning of the proposed budget document that will be issued by the Minister for Finance. We have also received documents on local government and European funds because they touch on some issues that relate to the policy area in which the committee is interested. The officials who are here to give evidence will respond to points about the enterprise and lifelong learning department material only.

I invite Stephen Woodhouse from the finance team of the enterprise and lifelong learning department to introduce his colleagues and to make any appropriate introductory remarks.

Stephen Woodhouse (Scottish Executive Enterprise and Lifelong Learning Department): Thank you, convener.

I am Stephen Woodhouse; I am a finance team leader with responsibility for enterprise and lifelong learning. To my left is Colin Reeves, who is head of the further and adult education division. Next to him is Wilson Malone, who is head of the

investment assistance division.

On my right is David Wilson, who is head of the enterprise network and tourism division and Graeme Dickson, who is head of the higher education, science and student support division.

The document before the committee is an extract from a departmental report that shows the proposed budget for enterprise and lifelong learning. The figures are based on the comprehensive spending review of a couple of years ago. They have been adjusted for the decisions that were made following the publication of the Executive's programme for government document. There have also been some subsequent technical adjustments between programmes.

The figures break down the expenditure to what we consider to be meaningful and discrete chunks, such as expenditure on Scottish Enterprise, further education, the Scottish Higher Education Funding Council and so on. We have included more detail to facilitate understanding of the figures.

The budget document that was approved by Parliament contains information that is not included in the tables in the document. The document includes only information on expenditure that is within the departmental expenditure limit. Some cash sums are not included, in particular student loans.

The Convener: Thank you.

Our discussion this morning will be on points of fact and detail. We will leave officials to indicate whether it is appropriate for them to respond to questions on policy issues.

On the documents that we have been shown, page 37 indicates that the budget for 2000-01 is £2.001 billion. The table on the following page indicates a total of £1.88 billion. Can you explain the difference between the figures?

Stephen Woodhouse: That is because the copy you have is a printer's proof—the first figure that you mention is wrong.

The Convener: The figure should be £1.88 billion—that clears up the issue of the missing millions.

You said that the figures in table 3.1 take account of decisions based on the comprehensive spending review. What account do the figures take of decisions that have been made by the Executive in the past few months on, for example, student finance?

Stephen Woodhouse: The figures do not include any adjustments that are based on decisions relating to the advice of the Cubie committee.

The Convener: Are there any other aspects of policy change since the start of the parliamentary year that are not spelt out in the balance of expenditure that is indicated?

Stephen Woodhouse: Yes. The recent announcement by Mr McLeish on additional money for tourism—£5 million for Ossian—is not included. That will be included in a supplementary report later in the year.

The Convener: Are you in a position to tell the committee how the Executive will decide where the money will come from that will be required to implement the Cubie committee recommendations and the tourism strategy? How will the committee be advised of any proposed changes to the expenditure proposals that have been set out by the Executive in the document before us?

Stephen Woodhouse: We will put advice to ministers on where the money to fund Cubie might come from. Ultimately, the decision will be for ministers and I imagine that Mr McLeish will report to the committee on how that decision was made.

The Convener: What is the likely time scale for that? To put that in a wider context, the information that we have does not take into account the changes to public expenditure that were announced by the Chancellor of the Exchequer in his budget a few weeks ago. Reallocations will also be required to take account of the circumstances that you mentioned regarding Cubie and tourism. When are the figures likely to become clear?

09:15

Stephen Woodhouse: Ministers have yet to decide how to deal with the proposals that arose from the budget. I hope that that will happen in the next couple of months.

The Convener: Okay. I will broaden the questioning out to other members.

Fergus Ewing (Inverness East, Nairn and Lochaber) (SNP): Thank you, convener.

My question concerns the presentation of the figures. Am I right in saying that—apart from one table at the end—the papers show the figures in cash terms, rather than real terms?

Stephen Woodhouse: They show the figures in cash terms, with the exception of student loans; that figure is shown in resource accounting terms.

Fergus Ewing: So the figures do not take account of the effect of inflation?

Stephen Woodhouse: To the extent that—. Yes.

Fergus Ewing: Could the figures be presented in real terms, showing the effect of inflation?

Stephen Woodhouse: At level III?

Fergus Ewing: At all levels.

Stephen Woodhouse: Yes; we could do that.

Fergus Ewing: That would be helpful in allowing us to make a comparison of the real value of money, year on year, on each budget line. That is much appreciated.

Elaine Thomson (Aberdeen North) (Lab): A set of objectives is shown alongside each table. I assume that those are your key performance indicators.

Stephen Woodhouse *indicated agreement.*

Elaine Thomson: Are those objectives, or KPIs, new or on-going? Do you—or will you—report your progress against those objectives somewhere?

Stephen Woodhouse: They are a mixture of old and new. Some come from the programme for government; others existed beforehand. The majority will be reported elsewhere, in more detail. For example, the Scottish Tourist Board will report its objectives in its annual report. Similarly, Scottish Enterprise will include its performance in its annual report, as will the Scottish Higher Education Funding Council.

Nick Johnston (Mid Scotland and Fife) (Con): On table 3.11, page 45, what has happened to the £36 million that is shown as unallocated in 1999-2000? Has it been subsumed in the figures for the next years, or is it in a pot elsewhere, which we can access?

Stephen Woodhouse: Most of it has been subsumed in meeting commitments in the current financial year and the following year. Table 3.11 shows that the amount that is unallocated for 2001-02 is £1.1 million.

That money is being used to meet rising commitments. We are trying to carry it forward into each future year, so that it can be used—

Nick Johnston: So the real amount of money that has come out of the Scottish budget in 2000-01 and 2001-02 is reduced by £36 million, because that sum was unallocated reserves from prior years?

Stephen Woodhouse: It has been reallocated into those future years. Yes.

Nick Johnston: Thank you.

Allan Wilson (Cunninghame North) (Lab): That was one of my questions. The other relates to level III, table 3.10, and regional selective assistance. There seems to be a planned reduction of £10 million; that is reversed in the second projected year, which shows a planned increase to £84 million. The explanatory note says that RSA is "demand led". Does the 2001 figure

reflect a lack of demand? As I believe RSA should be extended and probably increased, I would be interested to learn whether that figure reflects lack of demand or a policy change.

What proportion of the value of RSA grants is made in support of inward investment projects as opposed to indigenous investment? Is that proportion liable to change?

Stephen Woodhouse: The figure is lower for 2000-01 because we had money for the Hyundai project; we moved that money to the following year because we did not think that we would need it this year.

Wilson Malone can probably answer your other questions.

Wilson Malone (Scottish Executive Enterprise and Lifelong Learning Department): Indigenous firms typically account for 80 per cent of RSA offers that we issue and about 40 per cent of the spend. To put it the other way round, inward investors get about 60 per cent of the spend. You could characterise that differently by saying that big projects account for 60 per cent of spend and that, largely, inward investors have the big projects.

I do not foresee a significant change in that proportion.

Allan Wilson: I take that point, but would a significant increase in allocations to inward investment have an adverse effect on your ability to meet indigenous companies' demand for RSA?

Wilson Malone: Yes, in theory, but that has never happened. We have always managed to meet our obligations to both.

Miss Annabel Goldie (West of Scotland) (Con): I am looking at the funding of Scottish higher education and trying to reconcile tables 3.3 and 3.19. Apart from the fact that the latter is in real terms, there seems to be quite a disparity in the baseline figures. Is there a straightforward explanation for that?

The Convener: Are you looking at the difference for 2001 between £609.4 million and the real-terms figure of £581.5 million?

Miss Goldie: Absolutely.

The Convener: I assume that that is the impact of inflation. Is that right?

Graeme Dickson (Scottish Executive Enterprise and Lifelong Learning Department): I think that it is because of inflation. Both tables show £531.9 million for 1998-99, but for 1999-2000 it looks as if the effect of inflation has been taken into account in table 3.19 but not in table 3.3.

Miss Goldie: So is inflation the explanation for the disparity? I am looking at 2001-02. In table 3.3 we have £641.6 million, but in real terms—in table 3.19—the figure drops to £597.2 million. I am sorry; I am a novice at these things, and I find it—

Graeme Dickson: I am sorry too; this is the first time we have seen the figures, so it is difficult to talk about them without doing some mental arithmetic.

The Convener: The difference between cash terms and real terms—if my anorak mind is correct—should be simply the effect of inflation. If it is not, there may be wider issues.

Miss Goldie: There is quite a disparity in the figures.

Stephen Woodhouse: Yes. The base year is 1998-99, so by the time we get to 2001-02, the effect of inflation is that much greater and it would deflate the numbers—

Miss Goldie: So there is a cumulative component in the figures?

Stephen Woodhouse: Yes.

Miss Goldie: What rate is inflation worked out at? Do you project an out-turn rate for inflation?

Stephen Woodhouse: We have gross domestic product deflators, which the Treasury provides. We apply them to each year.

Miss Goldie: To the figures that—

Stephen Woodhouse: I am happy to go back and check the figures.

Miss Goldie: I would be grateful if you would. My next question concerns the fact that what is set down in the document is not what actually reaches our higher education institutions. I have already raised that point with the First Minister in the chamber. Is there any dialogue between the department and the Scottish Higher Education Funding Council about the final release of funds?

Graeme Dickson: We provide the funding council with a guidance letter and a grant offer letter every year. SHEFC's grant for financial year 2000-01 is £609 million, as shown in the table. It is up to the council to decide how the grant is allocated to individual institutions, because under the Further and Higher Education (Scotland) Act 1992 the Executive is prevented from directing the council toward any individual institution or course.

In this year's grant offer letter, specific initiatives were included for part-time fees, funding for research infrastructure, commercialising research and decommissioning the former reactor owned by Glasgow, Edinburgh and Strathclyde universities. That adds up to about £10 million. Apart from that, it is up to the council to decide how it disperses

the remaining money to the universities.

Miss Goldie: Is it within the domain of your department to engage in dialogue with higher education institutions and listen to their representations about the council's final allocation? That may not be on a pleading-hard-cases basis; if money is being top-sliced by SHEFC for whatever reason, all higher education institutions have to make pre-emptive bids at short notice.

Graeme Dickson: Yes, in this case we have done, and not just at official level. The university principals made the same point to Henry McLeish.

George Lyon (Argyll and Bute) (LD): You will be required to pay student tuition fees for this coming year and the next number of years. Is that built in to the figures that we have in front of us? If so, how much will it cost in years 1, 2 and 3?

Stephen Woodhouse: Table 3.2 shows a breakdown of expenditure by the Student Awards Agency for Scotland. The first line shows a combined figure for awards and fees. It does not take account of the changes following the Cubie report. I do not have to hand a split showing fees, but we can provide that for the committee.

George Lyon: But it is in that budget figure?

Stephen Woodhouse: Yes.

George Lyon: Are the fees paid directly to the Student Awards Agency, which then pays the universities?

Graeme Dickson: The addition to the Student Awards Agency that will be needed for 2000-01 is between £20 million and £27 million. The agency will pay the money directly to institutions on behalf of each student, irrespective of family income.

Miss Goldie: In the interests of propriety, I should have stated that I am a member of the court of the University of Strathclyde, which is a declarable interest.

The Convener: We are beginning to get the message on that point.

Dr Elaine Murray (Dumfries) (Lab): Like Annabel, I was confused by some of the figures for higher education. I do not find this report terribly useful. There is not enough detail and explanation in it. I presume that this is just a public document and wonder whether a more detailed analysis will be provided for the committee—it is difficult to get the necessary information. For example, I would be interested to know what is spent on science and research in Scotland; there is no way to find that information in this document.

I am also interested in the rationale behind some of the judgments that have been made. For example, is the fact that, in real terms, funding for

higher education is going down this financial year but will increase substantially the following year due to student numbers falling and being projected to be higher the following year? What is the rationale behind that? I also note that, in Highlands and Islands Enterprise, a decreasing sum is being allocated to developing skills. It seems a little odd, given our commitment to lifelong learning, that we are investing less in developing skills. The report is a bit confusing and provides insufficient information to let us analyse the situation.

Stephen Woodhouse: Mr Dickson, would you like to deal with the point on higher education?

09:30

Graeme Dickson: Yes. One of the reasons the figures show a downturn in real terms this year is that the cash increase is understated. The main reason for that is that the figures for 1999-2000 include a specific allocation that was given to fund the new University of Edinburgh medical school buildings at Edinburgh royal infirmary and the Western general hospital. There will also be allocations for the next two years, but they are not shown in the forward plans because the money comes from the health department and is then transferred to the funding council. Until the building contractors for the new institutions have run their profile and worked out how much of the share is from the medical schools, the transfer cannot be made. That is one of the reasons. There is probably about another £10 million to go into the higher education budget this year. Other additions are not shown in a table that is based on such broad categories. For example, it does not take account of Open University funding in Scotland from this year and the change in designation of Bell College of Technology, which will move from one sector to another.

Dr Murray: So, to get to the point, this document is for public consumption. Will a more detailed breakdown be made available to the committee?

Stephen Woodhouse: I think that we can provide a breakdown to the next level down, which I hope will answer some of your concerns.

The Convener: I understand that we will return to this matter later in the year, when some of the implications of the Cubie committee and the tourism budget will become clear. We will raise with ministers some of the points that Elaine Murray has made.

Marilyn Livingstone (Kirkcaldy) (Lab): How much of the further education budget is ring-fenced? Last year, there was some ring-fencing for social inclusion. What are the targets for quantitative, as well as qualitative, measures?

There was a change last year. Can you provide that information now, or will you provide it later?

Colin Reeves (Scottish Executive Enterprise and Lifelong Learning Department): The question is how much of the further education budget is ring-fenced for specific purposes. Mr McLeish issued the main letter of guidance to the funding council on 29 March. As with higher education, the council is given a large sum of money but a few items are ring-fenced for specific initiatives or purposes. It is essentially for the funding council to decide the breakdown between the money which—

Marilyn Livingstone: I was asking a specific question. Last year there was an allocation for social inclusion to encourage colleges to recruit students who come from disadvantaged groups. What is that allocation this year?

Colin Reeves: I can provide that information to the committee later.

The Convener: You had a question, Nick.

Nick Johnston: My question has been asked.

Elaine Thomson: I would like to ask one further question about objectives. Gender impact analysis was discussed at the Finance Committee yesterday. Is gender one of the criteria that you use to monitor objectives? None of your objectives mentions gender.

Stephen Woodhouse: Some of the funding councils' more detailed objectives may use gender as a criterion, but I do not know.

Graeme Dickson: In higher education, student intake is broken down across socio-economic groups and by gender to measure improvements in the balance in socio-economic groups. The gender balance in higher education is already about 50-50.

Elaine Thomson: One of the objectives is to assist new business starts; the objective is 100,000 new businesses across Scotland by 2009. From what you have said, no data on gender is held on that. Would such data be of value?

David Wilson (Scottish Executive Enterprise and Lifelong Learning Department): That is one of the programme for Government targets. As far as I am aware, it is not being monitored or audited in terms of the gender of the director of the company. We can take back that suggestion.

The Convener: How is that number being monitored?

David Wilson: An overall assessment of the programme for government targets is going on. We will continue to monitor all the targets so that we have the statistical sources and information to

ensure that we can monitor them over time. A similar exercise has been done for the social justice milestones.

The Convener: Is that framework in place?

David Wilson: It is in place for new businesses, about which there is good information. The information on each target varies; we have good information on some and are improving information on others. We have fairly good information on new businesses.

The Convener: Is there a framework that provides for monitoring all the indicators in the programme for government since that programme was published, for example—in respect of enterprise and lifelong learning—the number of modern apprenticeships, new exporters, or new starts in training?

David Wilson: Yes. That has been put in place.

The Convener: Could there be a year one report on the programme for government by September this year—one year after the programme was published—which would show the original target and progress towards it for each of those indicators?

David Wilson: I am not aware that any commitment has been made to do that. An exercise is under way to assess and monitor each target, as you would expect.

Fergus Ewing: Could you look at page 46 and the level II real-terms table—table 3.19—which includes figures for the estimated budgets for Scottish Enterprise and Highlands and Islands Enterprise. The budget for Scottish Enterprise for 1999-2000 is £368 million; that figure will rise to £402 million by 2001-2002, which represents an increase of 9 per cent over the two-year period. The figure for HIE falls from £64 million to £61.6 million, which represents a cut of 4 per cent. Can you explain that disparity of treatment?

David Wilson: The principal reason, which I mentioned earlier, was the Hyundai project. In effect, money was reallocated from 1999-2000 into 2001-2002. If you look along the line, you will see that the Scottish Enterprise budget has varied significantly. If you make the same comparison between 1998-1999 and 2001-2002, the Scottish Enterprise budget has gone up to some extent, but the difference is not as marked.

Fergus Ewing: Were those budget figures fixed before the announcement of redundancies at Barmac?

David Wilson: Yes.

Fergus Ewing: Will they be reviewed?

David Wilson: As you are probably aware, Highlands and Islands Enterprise has made

representation to the department for additional funds; that is being considered.

Dr Murray: Table 3.9 on page 43 is about tourism. You said earlier that the new money that has been announced for tourism is not included in the table; I appreciate that, but it would appear that the allocation for promotion and development of tourism is on the decrease, whereas the allocation for administration of tourism is on the increase. Is there an explanation for that—for example, is it connected with the development of Project Ossian?

Stephen Woodhouse: Staffing for the development of Project Ossian is part of the reason. The change is primarily a reallocation; some staff who supported promotion and development activities have been moved into administration.

The Convener: If members have no further comments, I will make some concluding points.

The 1999-2000 estimated outturn in real terms is shown on page 46. When does that figure become concrete?

Stephen Woodhouse: It should be pretty concrete now. It is based on the appropriation accounts, which were published last August.

The Convener: That is the estimated figure.

Stephen Woodhouse: I beg your pardon. The figures will become concrete in August.

The Convener: Before we take our next stab at the budget, which will happen once we know the impact of the Chancellor of the Exchequer's budget and the decisions on Cubie and tourism, will we have the 1999-2000 outturn figures?

Stephen Woodhouse: Those figures do not become final, formally, until the National Audit Office sign them off. There should be almost-final drafts before that.

The Convener: I do not understand where table 3.11 fits into the department's total budget. I can see where every other budget line fits into table 3.1, but I cannot get table 3.11 to fit into that table. Perhaps I have found another printer's proof error.

Stephen Woodhouse: It is another printer's proof error.

The Convener: So the other line in table 3.1 should tie in with table 3.11. Okay.

In table 3.11, for the Scottish renewables obligation, the outturn figure for 1998-1999 is shown as £6.6 million. If my recollection of that budget line is correct, it has been £12.9 million per annum in cash terms since time immemorial. Why has it been £12.9 million for each of the three succeeding years, with an outturn figure of £6.6

million? Was that ever discussed?

Stephen Woodhouse: It was. I think that there has been a third renewables order—at least that has been proposed, if it has not happened—so we have retained the provision to deal with the outcome of that order.

The Convener: The unallocated figure of £35.9 million, which we talked about earlier, is a figure within the 1999-2000 budget, for which there was no departmental home at the outset of the year. You are now budgeting much more up to the ceiling. Is it a contingency?

Stephen Woodhouse: No. That figure arose partly from money not spent on Hyundai and partly from a large regional RSA claim that was expected to come in, but did not. We were able to carry the money forward to allow for those claims coming in in future years, or to meet other commitments.

Fergus Ewing: The money not spent on Hyundai has been mentioned twice, in relation to the unallocated figure and the Scottish Enterprise figure. What was the total allocation for Hyundai? How much has been spent?

Stephen Woodhouse: I will have to come back to you on that; I do not have the information with me.

Fergus Ewing: Would you do that?

Stephen Woodhouse: Yes.

09:45

The Convener: We have to find out where Hyundai fits into the equation, because it is having an impact on our deliberations. It would be useful to have a note that set out exactly what has happened with the Hyundai allocation. We need to know its impact on the budget lines; it either has an impact on a number of budget lines, in which case we will have to consider how they add up, or it has an impact on only one budget line. We need to know the assumptions that have been made in reallocating money to future provision. That would get to the heart of some of our concerns.

I thank the witnesses for their attendance. We will reconsider those issues in due course.

Local Economic Development

The Convener: I welcome representatives from Scottish Enterprise, who are here to give evidence to our inquiry into local economic development. I invite Sir Ian Wood, who is the chairman of Scottish Enterprise, to introduce his colleagues.

Sir Ian Wood (Scottish Enterprise): Thank you, convener, for the opportunity to give evidence today. On my right is Robert Crawford, who is our new chief executive; on my far right is Evelyn McCann, who is our director of skills and lifelong learning; and on my left is Alan Sim, who is our new senior director of network operations.

The Convener: You will be aware of the content of our inquiry. We appreciate the information that Scottish Enterprise has given us and the response that you made to our interim report in December. I imagine that this morning's session will run until about 11 o'clock, and I would like to focus primarily on our inquiry into local economic development. However, I recognise that there is a process of review and change in and around Scottish Enterprise, so I do not want to prevent the witnesses, or committee members, from addressing wider issues that will have an impact on the issues that primarily concern us.

You will be aware of the view that the minister, Mr Henry McLeish, has expressed. He looks to this committee to consider the issues of local service delivery in the context of the wider reviews that he hopes to conduct. We welcome the opportunity to set out views and proposals on how that delivery may be improved.

If Sir Ian would like to make an opening statement, we will then move on to some questions.

Sir Ian Wood: We are aware that we should keep our opening comments brief. Members will have seen our response to the committee's report; we will take that as read. Robert Crawford, Alan Sim and I will take three minutes each to update the committee on three recent significant developments in Scottish Enterprise.

The first development is the Scottish Enterprise Network 2000 agenda; the second is the initial review that Robert Crawford has been carrying out, along with his colleagues; and the third concerns some recent changes in the business support programme. I think that they are all relevant to the committee's deliberations.

Before I continue, I want to say that the committee's interim report was an extremely well-considered assessment of the current position. It recognised some clear issues and problems, and pointed the way towards some improvements. I

like to think that our response was equally constructive.

The SEN 2000 agenda began about 15 to 18 months ago. It had been realised, across the whole enterprise network, that although the initial concept—a centre in Bothwell Street in Glasgow and 13 autonomous local enterprise companies—was perhaps right for the early 1990s, we had to get the LEC agenda and activities much closer to the SE agenda and activities. In effect, the SEN 2000 agenda was an agenda for cohesion. I want to emphasise that what we have established now is quite different from what existed before. We have moved away from the concept of them and us—that is, the centre and the LECs. We are now operating a network, or a matrix, that is much more powerful. It enables us to address some of your prime concerns about the network and to make improvements—for example on providing consistency, value for money, and better quality assurance within the network, and on dealing with confused branding.

There are several elements to the agenda. The LEC chairs will be much more involved with the Scottish Enterprise board; four of them will sit regularly with the board at meetings. The LEC chief executives, along with Robert Crawford and his team, will sit as the network executive team, or NET. That team will be responsible for delivering a Scottish Enterprise network operating plan. As part of a shift in accountability, the LEC chairs and chief executives will be subject to reappointment after three years. Scottish Enterprise will play a role in the appointment of LEC chairs and chief executives.

Members will be aware of the single brand identity. Each of the LECs has adopted the Scottish Enterprise name followed by the appropriate regional name. The LEC contracts have been amended to include clauses on consistency of service, quality assurance and a coherent focus on network strategic priorities. We are now able to use personnel from the individual LECs right across the network; there is much greater interchangeability and therefore much greater ability to use individuals' strengths where they are required. You will see key people from the Lanarkshire Development Agency working in Dunbartonshire, and so on.

Another point—perhaps one to which we have not given a high enough profile—is that the LEC budget process has been changed to one of output funding. Each LEC has to present its budget application in terms of the various outputs that it believes it can achieve; those are then fitted together to meet the Scottish Enterprise outputs. We have a much firmer set of output requirements and a framework for performance measurement and output monitoring.

There are now clear guidelines for the LEC boards to be more representative; that addresses some of the comments in your interim conclusions, but it was on our agenda nine months ago. Where appropriate, there will be have to be representatives on LEC boards from a range of business and community groups.

We—the network and the LEC chairs, rather than the centre—are laying down guidelines for greater transparency. The minutes of LEC board meetings and Scottish Enterprise board meetings will be published, except where commercially confidential matters are involved. Each LEC is considering the establishment of consultation groups for large and small business, to integrate their activities more fully. The last item on the on-going SEN 2000 agenda, which again is relevant today, is that we have laid down the basis for step-change thinking in our relationship with local authorities, and higher and further education. We may come back to our agenda in questions.

Robert Crawford (Scottish Enterprise): I echo Sir Ian Wood's comments in thanking the committee for inviting us to meet you, so soon in my tenure as chief executive.

The review that we have undertaken in the past four or five weeks is not in any way pre-emptive of the committee's conclusions or of the ministers' review. Rather, it exclusively concerns the operational effectiveness of Scottish Enterprise: what we are best at; what our goals are and whether we are achieving them; and whether we have the right skill sets and so on.

I will be brief because I know that the committee will want to move to questions. Essentially, the review was intensive and focused. We had to do it quickly, not least because we had to give staff a clear sense of where we are going. We are now moving into the second phase of that review, which will deal with issues such as skill sets, applicability among staff and so on.

I will summarise the key findings. We wanted to connect the work of the enterprise companies to the centre in a more direct operational way. Alan Sim has been charged with doing that. We wanted to put the clusters activity, which the committee knows about, at the heart of our business and to ensure that that was put into operation across all the fronts of Scottish Enterprise business. We wanted to build in a clear set of best practice and performance measurement systems, so that every member of staff knew the outputs and goals that were expected of them. In turn, we have responsibilities for the empowerment of those staff.

As we wanted to build in a global dimension, we brought together the various parts of our organisation that were operating in the global

marketplace. They do not always do the same thing, but we recognised that there were synergies between the work of Scottish Trade International, Locate in Scotland, European groups, and the group that assists Scottish companies to globalise.

We have brought together several other groups, including, the committee will be interested to note, a customer relations group, because we recognised that some of the concerns that were expressed in the committee's business in the chamber day were legitimate and needed to be addressed. We have created a directorate to work closely with our customers and stakeholders in a variety of different environments.

At the heart of our business—indeed of every business—should be e-commerce. We already had under way an interesting and important body of work, the k-web—the knowledge web—which is a set of e-commerce tools that will transform the way in which we do business with each other, with our customers and with businesses generally. We have merged that group with a new group, which will work with external customers on e-commerce provision.

That means that there will be one directorate within Scottish Enterprise, specifically charged with delivering internal and external e-commerce support. I cannot emphasise enough the transformation that that will mean for our business and for our customers. It will affect the lifelong learning agenda, the business of Scottish Trade International and Locate in Scotland, the provision and delivery of business services—an issue of great concern to the committee—and the way in which we deal with our customers. It will also make available externally the kind of information that Scottish Enterprise has available internally at the moment. It will make us much more transparent, accessible and efficient.

10:00

We have a challenging three-year programme. I believe that if we handle it effectively, we will emerge from the process a very different organisation, delivering greater value for money and better information.

We recognise the need to be increasingly creative in the way that we use taxpayers' funding. We have therefore put together a finance directorate and are in the process of hiring a finance director to do a number of things. Of course, we want to deliver value for money. In the future, there will also be a greater need for us to work in partnership with indigenous and international firms for the provision of a variety of things, from property to services to building investments that we would otherwise be unable to create on our own. The new directorate will have

financial creativity and external partnering at its heart.

Scottish Enterprise's structure is now less hierarchical and, we hope, less bureaucratic. I can assure members that the central theme will be customer service.

Alan Sim (Scottish Enterprise): Like my colleagues, I will endeavour to be brief. I want to address the issue of local economic development, primarily small business support. I should like to make half a dozen key points about our current work in that area.

Usually I would have started by rehearsing the issues of duplication, inconsistency and confusion, but I think that the committee knows better than most what those issues are. We will take them as given, and move quickly to the half dozen key activities that we have in train to address them.

On customer confusion, we have visibility and branding. We will introduce what we call our small business gateway, which will be a single Scottish brand with a regional identifier, which will replace the more than 40 diverse brands that currently exist, mainly in the form of enterprise trusts and others contracted to the Scottish Enterprise network to deliver such services, including local authorities and the private sector. The gateway will encompass business shop provision, so there will be a consistent, recognisable brand in the high streets of Scotland, where people will be able to get small business support.

Underlying that, we are introducing account management principles. The account management best practice that exists in some organisations will be rolled out. All suppliers in the supply chain will be required to improve performance and customer focus.

We are rationalising support for what we call high-growth potential businesses. We will not dance on the head of a pin and try to define what a high-growth potential business is, although much work is being done on that. We recognise the characteristics. Rather than having 13 local enterprise companies, each trying to address the issue and provide support to a small number of businesses in their area, we are considering the concept of having four regional centres across Scotland, where the efforts of the local enterprise companies will be pooled to support businesses that require more than the normal support regime.

As Robert Crawford said, we have an internal k-web project. It allows us to run our business better and more effectively, and one of our key aims is to use it as a mechanism for delivering services to our customers. One of the first opportunities we have is to take advantage of the internet and web-enabled technology to deliver our business information services, which are currently provided

through the business shop, and to deliver on-line services and support to customers across the range of business planning processes.

We are trialling a national training and accreditation programme for business advisers to counter inconsistencies in business adviser training. When the two pilots have completed their run, we intend to roll out that programme to the whole extended supply chain—including the enterprise trusts and other bodies—to ensure that the 150 or 160 business advisers in that chain across Scotland will be accredited in 12 to 24 months.

Finally, we are rationalising our financial support packages into one consistent base-line offering so that there will be a minimum level of entitlement across Scotland. However, we are retaining LECs' ability to use their own resources to top up that grant depending on local priorities and needs.

I will not say any more about the six key points for small business support. However, I am happy to take the committee's questions.

The Convener: Thank you very much.

I want to ask a key question that has arisen in our inquiry. We have much sympathy with many of your comments and support the direction that you are taking. However, now that we are in the position to create an enterprise network that will truly respond to customer sympathies, the question at the heart of the matter is why has it taken us so long to reach the point where Scottish Enterprise representatives can come before the committee and set out an agenda that is similar to the committee's agenda.

Furthermore, Scottish Enterprise has come in for some trenchant criticism in the course of this inquiry, which has led to a very different and welcome approach to customer service, which has been outlined this morning. What lessons about the absorption of customer opinion has the organisation learned?

Sir Ian Wood: One of the key issues was the shift to the network. Although, in the early days of Scottish Enterprise, the relationship between the autonomous LECs and the centre had some strengths, there was also a fair bit of dynamic tension, and much time and energy was taken up with the interface between the two areas. Some of the actions that are under way are possible only because the LECs and Scottish Enterprise are now thinking and acting as a network, which was a result of changes that stemmed from Robert Crawford's initial review. We could not have contemplated such measures even 12 months ago without the concept of network thinking, which will enable us to achieve action all round the network.

The Convener: Why was such a concept not

accepted before?

Sir Ian Wood: In 1991, I sat at the first meeting of the LEC chairs and I have to tell you that each LEC chair made a declaration of independence for their own area. It has taken a long time for such thinking to be accepted. In fairness, Donald MacKay started the process two or three years ago and a few key LEC chairs and I picked it up. There is now a realisation that Scottish Enterprise must significantly evolve and change; the refusal to accept that concept had been a block to progress.

The Convener: Alan Sim mentioned measures such as the single business gateway and the incorporation of local authority provision into a single brand. Have all the necessary organisations signed up to those concepts?

Alan Sim: We believe so; however, we will not be absolutely certain until the programme is implemented.

What we are talking about is the supply chain over which we have some control, which is primarily the supply chain that we fund. In part, we deliver in partnership with local authorities; however, if the local authority is the major player, we cannot require it to be part of the supply chain, although we will seek to do so.

We felt that it would be imprudent to roll out the programme before the committee had issued its deliberations, because it might be appropriate to make some changes in light of its findings. However, we are having preliminary negotiations with all the partners in the chain. Although the signs have been encouraging thus far, there is a belief across the network that parts of the supply chain will decide to remain outwith the small business gateway concept for reasons of local identity and the like.

Sir Ian Wood: The key point is that the network has thought up this concept along with the Scottish Executive, and totally supports it. That would not have happened 12 months ago. We can now decide to implement something across the network and deliver that.

Robert Crawford: After five or six weeks, it might be premature of me to suggest that the concept is absolutely concrete.

I left Scottish Enterprise four and a half or five years ago. However, since I have come back, I have perceived a substantial change in attitude and a recognition that the status quo is not an option. In fact, there has been a transition in attitude between the centre and the LECs, which has allowed the network to come together. I hope that that does not diminish the significance of local economic delivery, because there are clear, often profound regional differences in an economy as

small as Scotland's. For example, there are striking economic differences between parts of Ayrshire—where I live—and areas around Edinburgh.

As real progress had been made at a behavioural and organisational level in Scottish Enterprise, the purpose of my review of the centre was to give a further push on customer focus issues and to recognise that we needed to engage regularly and meaningfully with customers. Picking up on your earlier question, convener, I should say that we will ensure that customers lie at the heart of our business; for example, specific goals on better customer treatment will be built into people's appraisals.

Sir Ian Wood: The committee noted in its interim proposals that the independent company status of LECs could be removed. That is not our position. We firmly believe that an important part of this model's effectiveness is that LECs should be the prime movers in their regions. However, that should happen much more within a Scottish context. Frankly, we are trying to have the best of both worlds, and we think that we will succeed in doing so.

The Convener: That brings me to my other, more philosophical question about the balance between the national centre and the LECs. The public have lost confidence in the belief that a Scotland-wide strategy could be pursued. How is the network positioned to deliver such a strategy, taking into account issues such as confusion, inconsistency and poor quality?

Sir Ian Wood: I hope that we are in the process of achieving a balance, which is an aim that has been stated by Robert Crawford and the new management team. Although models that are based on totally independent LECs and very centralised models both have their strengths, the strongest model is one where the network recognises the centre and the LECs. Achieving that aim will depend on relationships and behaviour, and there have been vast changes in both in the past two years.

The LECs will become much more involved in discussing Scottish strategy and programmes, which they will then automatically accept. We have done away with the situation in which one dissenting LEC voice was enough for us to fail to get agreement. We now have a decision-making process whereby we can get agreement effectively through discussion and by majority. We now have a much more powerful vehicle for delivering not just Scottish strategies across the LECs and local programmes, but international strategies. The international side is the third dimension of the arena in which we work, which will become increasingly important. We believe that we can cover all three dimensions.

10:15

Miss Goldie: I am interested in the description of the matrix. I understand what it means in terms of improved organisational efficiency, but can we anticipate that it will also have economic implications for operating with economies of scale?

Robert Crawford: That is a good question. Let me take a second to explain the background. The review examined operational effectiveness, fit-for-purpose issues, skill sets, whether we have too much bureaucracy and so on. The organisation has been around for nine years and we discovered that there were some problems. I did not find that in any way surprising; it was almost inevitable, not least given the scope of the challenge that Scottish Enterprise faces.

We have done the review and are now moving into the second phase, in which Alan Sim and other colleagues are actively engaged. We now have what we hope is a more rational structure, although that may be for others to judge. They are asking whether there is an opportunity to go beyond that to achieve operational effectiveness, economies of scale and so on. Without anticipating the conclusion, I believe at this stage that the review will have that effect.

More fundamentally, however, the k-web project and e-commerce will have radical and profound implications for the network, its customers and the way in which it conducts its business, which, I am certain, will result in substantial economies of scale across the network.

Miss Goldie: I am heartened by your response. Sir Ian Wood alluded to the status of the LECs. There was a clear indication that you want them to remain as corporate entities, which operate autonomously. However, does not there begin to be an irreconcilable conflict if, on the one hand, we have the supply matrix, which seems to be a very good model for going forward, and, on the other hand, the vision is to have local autonomous bodies with strong local wills? I find it difficult to get clear in my mind how we can broaden out the LECs to make them slightly more representative of the community and still retain the apparently very restrictive corporate hamstring round them. Do you see an opportunity for perhaps having to change the status of the LECs, if only to meet what—depending on the conclusions of our report—may be a new business-driven, community-led diktat?

Sir Ian Wood: Business around the world is increasingly moving to the matrix system, which works because of relationships. I do not honestly believe that anything can be achieved in business by sheer authority; it is achieved by agreement and consensus. In my private sector job, I feel that

I have failed if I have to use my authority—if I have to tell someone that they will do something because I am management.

That is what happens in the network. We have chairs and chief executives of LECs who are effectively more network-minded than some people working at Bothwell Street. People locally like to understand the national challenges and issues as well as the local issues. The challenge is our ability to ensure that the relationships are correct.

We now have things lined up reasonably well. If we manage the situation carefully, we will get the best of both worlds. We will lose something fundamental if we take away from the LECs and their boards. The LEC boards are a group of extremely capable people from all parts of the community, who have a great understanding of what is happening locally. We do not want to divorce them from their prime-moving status; we want to combine that with their involvement in what is happening centrally. If we get the relationships right, we will achieve that—and we are.

Miss Goldie: My final question relates specifically to education and skills. I am thinking of the evidence that was taken at the meeting of the Audit Committee yesterday in respect of the skillseekers initiative. An article was published on this recently in *The Herald*, but I want you to clarify how you perceive the provision of training and skills. Forgive me for saying this, but yesterday I detected that there was not total unanimity between you and the representative of the Scottish Executive enterprise and lifelong learning department. The department seemed to be living in a vacuum and focusing on the implementation of a programme in the abstract, whereas you seemed rather more realistic about the practical challenges that we face in delivering that. Do you believe that whatever form of training we provide must match a market and cannot be delivered in the abstract?

Robert Crawford: I take the view that there needs to be a market for training, but I hope that there is no divergence of views between the department and me. Conversations that I have had with the department suggest that we are very much in agreement. In any event, policy matters are for the department, rather than for Scottish Enterprise. We agree that, wherever possible, Scottish Enterprise should deliver where it can make the greatest impact. There is also a recognition—and I say this with the greatest respect for the committee—that skills training is a fundamental part of what we do and that its removal would have a serious effect on our capacity to deliver on a variety of fronts. We are engaged in a discussion with the department on

the impact of skills training, as opposed to the volume end of the business. I do not think that there is any difference of opinion between us on that.

George Lyon: We have heard quite a bit from you about the scrutiny to which Scottish Enterprise has been subjected and the conclusions that have been arrived at. You say that you want a more cohesive network structure throughout Scotland. You also state quite clearly that e-commerce will revolutionise the way in which your organisation operates, because it will make it more accessible and more transparent. In reality, that will mean fewer physical structures and that the political borders drawn on maps will become less important because, we hope, there will be seamless delivery of services, no matter where people are in Scotland. It will also mean a move towards much flatter management structures, of the sort that you say has happened in the Scottish Enterprise network. I assume that that will be moved down the line into the local enterprise companies. Could you comment on those issues?

Robert Crawford: Given the battering that Barclays Bank has taken this week because of the closure of buildings in parts of the country, I shall be very careful when talking about that. As e-commerce becomes more widespread, businesses will have less need for physical overheads of one form or another, and that is probably also true of the network. However, we have a devolved network—Scotland has the most devolved structure that I have come across in my experience working with development agencies internationally. There are good reasons for that. It reflects the differences of need and economic infrastructure—even in an economy our size. I believe that in future there will be less need for physical infrastructure, but I have no sense at this stage how much less.

Given the nature of the network and the requirement that people have at some point to face one another across a table, we will still need some infrastructure. It would be premature of me to speculate as to the final make-up of that. I think that e-commerce is hugely significant for all walks of life; we are only now beginning to understand the extent of its impact. We could sit down for an hour to speculate on where it could lead us, and the results could be quite radical. We will have to manage that process dynamically, almost as we go along.

George Lyon: I want to move on to flatter management structures—becoming much more customer focused and ensuring that the maximum resources are directed towards servicing customers, rather than towards bureaucracy behind the scenes. Is it necessary to have a finance officer or a strategy person in each of the

13 local enterprise companies? Surely in this day and age it should be possible to access a unit from anywhere in Scotland, given current IT systems.

You mentioned the clearer measurement of outputs. Could you elaborate on how you intend to go about that? You also mentioned taking on a finance director and talked about more partnership with bigger companies. What are you hoping to achieve by that? Is the intention to deliver extra resources to the enterprise network to help finance some of the projects that you want to undertake, or is it to ensure greater control of the finances of the enterprise network in its totality?

Sir Ian Wood: One of your questions is similar to the question about economies of scale that was put to us by Miss Goldie. I do not think that we should automatically assume that what you call a flatter management structure is the right structure for local enterprise companies. To a large extent, it is for local enterprise company boards to decide on the structure that they operate. Their role is different from that of Bothwell Street.

There is no doubt that phase 2 will involve examination by each LEC of its priorities and responsibilities, and our looking into economies of scale—on accounts and through shared services. However, we will do that in discussion with the local enterprise companies, which will lead some of the discussion. I would not like the committee to assume that there will necessarily be a flatter management structure. We will look hard at the implications for customer contact and the possibility of reduced bureaucracy, but those are different types of task.

Robert Crawford: I will be specific on clearer measurement of outputs. During the review, a team of people sat with executives and managers of projects, programmes and directorates, and asked them what they did, how well they were doing it, whether they knew their goals, whether they were time-lined against those goals, and so on. I am happy to say that many people were able to respond positively, although some were not.

When we embark on a project or a programme, we will say to Mary Smith or whomever it is, "Mary, you have agreed to do the following to get this programme in place." Some of the goals will be qualitative. A difficulty for all economic development agencies—and I know that the committee knows this—is that much of what they do is qualitative, rather than quantitative. Having said that, we will tell the individual or individuals who are engaged in a particular project what expectations we have of them—both qualitative and quantitative. During the year, they will report back frequently—in some cases quarterly, in others six-monthly—on the progress of programmes against their goals. That is something which would be self-evident in the private sector.

Those engaged in a project will be empowered by us to meet their goals. If they are not, the responsibility for that lies with me, ultimately. The goals that I have described will be built into their performance contracts and their appraisal systems. If we reward them financially or symbolically—it is frequently the latter rather than the former—it will be because of their performance judged on specific outputs. The base of the pyramid is the work of individuals at every level, facing both internally and externally. That accumulates until we reach the top of the pyramid, which is me, the Audit Committee or the board, which can indicate to people that they have failed to deliver on their goals. Information on those goals will be available in due course as part of the k-web project.

The Convener: There is another aspect that touches on the performance of local enterprise companies and whether they are delivering on the contract Scottish Enterprise issues to those agencies. One of the things that struck us in the informal evidence that we heard some time ago was the fact that no local enterprise company appears to have been given much of a hard time about how it has performed. That may be a mistaken assumption on our part. Does the regime that you are describing extend into the contractual relationship between local enterprise companies and Scottish Enterprise for the delivery of certain services, and subsequent penalties?

10:30

Sir Ian Wood: The first point is to get some clear output measures. In the past couple of years, we have worked more closely to clear output measures against which we can appraise performance. The second point is that the Scottish Enterprise board has had real difficulty deciding what to do with a LEC that is not performing. Do we give it less money? Giving it less money would have a negative impact on customers in that area. We have therefore adopted an approach of having some pretty hard, robust discussions with local enterprise companies on a board-to-board basis, encouraging them to agree to corrective action.

It is not irrelevant that the SEN 2000 agenda, with the LECs' agreement, now includes a three-year appointment period for LEC chairs and chief executives. That type of accountability is not unhelpful. In our opinion, some LECs have not been performing well. Others have performed extremely well. If we tried to control the situation by giving more or less money, we would be doing damage to the customers, and that is not what we are about. We are trying to enhance and improve performance.

By June this year, there will have been 10 changes in LEC chairs and nine changes in LEC

chief executives. We are now in a seven, eight or nine-year process, and there have been significant changes in the key players in some LECs. That has been relevant in achieving the network concept that we now have.

Robert Crawford: As one of the two accounting officers for Scottish Enterprise, I was reminded forcefully yesterday afternoon that I must take those responsibilities seriously. I want a finance director and a finance group that are robust in keeping me out of trouble, but I want more than that. The board agrees that we must undertake more partnership work inside and outside Scotland.

Let me give an example. I cannot name the company concerned, as that information is commercially confidential, but we recently engaged with an international telecommunications company and an international consultancy—not the one that I just left—for the provision of incubator e-space. We could not do that on our own, as it requires, among other things, the provision of broadband capacity on site. We are able to bring certain expertise to such a venture, but we cannot bring the sort of expertise that is necessary these days to get an e-business started quickly.

We hope that, if the deal is completed, the telecommunications company will bring broadband technology and the international consultancy will bring hands-on advice to the start-up e-businesses. We will provide property, related work on site and other support. The e-businesses will get the best of all possible worlds: contact with the international telecommunications operator, with all that that entails for reach; the physical requirements of broadband technology; and the advice of the international consultant on how to make an e-business work successfully.

We were recently approached by an international electronics company that wants to do something that we think goes to the heart of our strategy in building clusters and linking to our universities. That company is asking us to do something financially, which I am happy to say is legal, that we have not done before. I would feel more comfortable with a creative financial director who stayed within the law but, at the same time, realised that some challenging pieces of financial work will be required in the future that we have not done in the past. That is what this type of approach is about. We have to do what is necessary for providing services using taxpayers' money, while also being more creative. That will make available resources—financial or experiential—that we ourselves do not have.

Dr Murray: You painted rather a rosy picture of a lot of network-minded local enterprise companies that are quite happy with the new

situation. That is not the case in all areas: there are some areas in which LECs feel that the network is ruled by Bothwell Street and that you are imposing your brand on local areas. There is another side to the situation and it is not quite such a happy family as you are depicting at the moment.

Does the increasing transparency of local enterprise companies mean that, in future, LEC policy documents will be made publicly available to companies that would benefit from knowing what LEC policies are on, for example, supporting renewable energies?

You mentioned four new regional centres for high-growth business support. You did not mention their location, which I would be interested to know. I would also be interested to know how they will operate and how the needs of local communities—for example, in rural areas—will be represented in them. Like Mr Crawford, I used to be in Ayrshire. In fact, I was a member of an Ayrshire council where Locate in Scotland was not very affectionately known as Locate in Lanarkshire. There is a feeling in some rural areas that centralised bodies direct investment not towards them, but towards the central belt. How will you deal with the requirements and desires of rural areas through four regional centres? Where will they be? Is it possible that your cluster strategy will lead to conflict? Some of the cluster development is around high-growth areas as well.

Robert Crawford: Let me answer your point on the policy document. The internal briefing document on organisational changes that was given to staff was also made available to the public. The k-web will operate, subject to technology, in such a way that all policy documents will be available to anyone who wants to come into the web and look. If you were interested in a policy document on, say, the widget industry, you could come in and read the same policy documents as any other member of staff. If you were really interested and wanted to go further, I hope that you would be able to go from the general policy document on to more specific issues about companies, and then on to other areas such as skills. You would be able to drill all the way down until you got to a point where the information was commercially confidential and not only you but other members of staff would not be able to access it, because only a small team needed to know. Speaking for Scottish Enterprise, I hope that our k-web will let that happen. My strong bias is towards making information available as widely as possible.

Dr Murray: That is a significant change. I am aware of a company recently being refused access to a policy document.

Robert Crawford: If, after the meeting, you

would like to give me the name of that company, I would be happy to give it the document, provided that it is not commercially confidential. I assure you that my bias is towards making information available.

May I say, in parenthesis, that I was born and raised in Ayrshire and that I live there again having been gone for a long time. I tried awfully hard to get investment into Ayrshire when I was director of Locate in Scotland. However, we were always objective.

In Locate in Scotland, there is now a rural directorate. That is new since I left.

Dr Murray: I am aware of that, but I am asking specifically about the four locations for the support of high-growth businesses. Where will they be? I bet I can guess.

Alan Sim: The answer is that I cannot answer your question. I will put that in context; it may sound like a cop-out, Dr Murray, but it is not. The concept of having four regional centres for supporting the special needs of high-growth businesses was developed by a group of LEC practitioners—not by Bothwell Street. The group was formed to look into that and value for money. It decided that the concept made a lot of sense. Whether there will be three, four or five centres is being debated.

We have a group of four or five, let us use the generic term, Strathclyde LECs—I know that that is hugely sensitive because there are some people who do not feel an affiliation to that grouping—which are discussing the optimum place for such a centre. It will not be in a new location: it will be in the LEC that the peer group decides is the most appropriate to provide that resource. There is likely to be one in the east, one in the west, one in the north and one in the south. The one in the south will probably have more of a regional dimension. However, there may be three or there may be five.

Bothwell Street is not imposing this on the LECs, although it is true to say that wherever the decisions land, people will say, "If I had my way, I would rather it was somewhere else." That is part of the democratic process that we are going through. We are basically saying to the LECs, "Be self-selective. We endorse and support the concept and we in the centre, under my directorate, will provide all the infrastructure and support to make it happen," but we are not being prescriptive about where the centres should be. That is currently being hotly discussed, as I suspect you will be aware, in certain parts of Scotland.

Dr Murray: We are certainly relieved to hear that there may be a centre in the south in the forgotten lands between the central belt and the

north of England. What about the contact with the cluster strategy? How will that work?

Sir Ian Wood: Let me respond to two points: first, your first point, which you did not want an answer to—but which I will respond to if I may—and, secondly, your point about the cluster strategy.

It is inevitable with such a process of change that it will take time to get the widest possible acceptance, but the network concept is wholeheartedly embraced by all the LEC chairs and chief executives and by a large proportion of LEC boards.

On the view that the change represents centralisation, Robert Crawford proposed in his review that the Alba centre, which was a Bothwell Street-led activity, should be led by Lothian and Edinburgh Enterprise Limited and that Scottish Enterprise energy group should be led by Grampian Enterprise, working with Scottish Enterprise Tayside. I am giving you the old names, instead of the new names. The process that we are now discussing is much more complex. We will allocate activities in the network to the groups that can best handle them. I accept that in some areas there is the suspicion that some of us have a different agenda, but the agenda is largely accepted.

With regard to clusters, there are two comments to be made. I do not think that clusters are just about high-growth areas.

Dr Murray: Some are and some are not.

Sir Ian Wood: That is true, but I was going to say that two of our newest clusters are forestry and tourism. They cover large parts of rural Scotland. Effectively, they cover the whole of Scotland. We are aware of the importance of rural areas, but the cluster concept does not mean concentrating on geographical areas: it means understanding all the elements that impact on an industry, wherever it is, and trying to co-ordinate them.

Dr Murray: But industries tend to be within an hour and a half's travel of their research base. You are looking at the link between research institutions and companies. There is a locational aspect to that.

The Convener: We have to make the questions briefer.

Fergus Ewing: You mentioned that some LECs have performed less well than others and been on the receiving end of your robust message. In what ways have they performed unsatisfactorily?

Sir Ian Wood: They have delivered less well against performance measures. In some cases that has been in relation to establishing

relationships with local authorities, further education colleges or higher education establishments in their area. In others, the board has not been fully representative of the local community in the way that we would have liked it to be. They have performed less well in a number of aspects of the SEN 2000 agenda, but their performance has been measured against established and agreed performance parameters.

Fergus Ewing: There is a widely held perception among the public and the business community that money is not used to best effect in the enterprise network. Some people argue that far too much money is spent on consultancy. One of the speakers in business in the chamber, Mr Dinsdale, suggested that if best practice were adopted, £50 million could be saved within two years. Do you agree with that? If so, will you set a target for efficiency savings that should be carried out and implemented throughout the structure?

10:45

Sir Ian Wood: I will defend the local enterprise companies quite strongly. We have some extremely good local enterprise companies in Scotland; there are extremely able people on the boards and, generally, their performance has ranged from good to very good.

One of the benefits of the network concept is that we will get much better co-ordination of consultancy. In a world where huge change has taken place in the economic environment and the technology environment, the truth is that a lot of consultants add a huge amount of value. There is a danger of our being parochial. I do not want an edict that says we should not bring in consultants; consultants bring an outside view, get us out of parochial thinking and can add an immense amount of value.

With the network concept, we will try to ensure that there is no duplication of consultancy; I think that has been an issue.

Robert Crawford: The k-web will allow us to share information much more readily. Rather than taking days to find out whether a piece of work has been done, we will be able to find out very quickly.

Fergus Ewing: I was surprised to learn that the enterprise network is not subject to the ombudsman, so people with grievance or complaints do not have redress to the ombudsman. In the interests of greater transparency, do you agree that it would be helpful if the enterprise network is in future brought within the range of bodies about which the public can complain to the ombudsman if they feel that they have a grievance or complaint?

Sir Ian Wood: The enterprise network is not

subject to what you call the ombudsman because it has its own ombudsman. We have a gentleman called the complaints adjudicator—Professor Hugh Begg, who has been in place for four years. He is the official person to whom any complaints are put. He adjudicates on complaints and produces a response to them. I do not know whether he operates on as wide a basis as the ombudsman, but I get involved—because the chairman gets involved in any complaints—and can assure you that Professor Begg does an incredible job. We have a procedure for dealing with complaints. He is an external appointment.

The Convener: It would be interesting if you could send the committee information on Professor Begg's work, his role, his responsibilities and how people get access to him.

Allan Wilson: I will restrict myself—tempting as it is to ask a question about the article, as it was published—to the terms of the local economic development inquiry that we are undertaking.

I believe that, as the convener said, the reforms that you outlined are consistent with what we are trying to do. Sir Ian mentioned the role of LEC members as representatives, as opposed to the terms that you used in your official response to our original question that they are not representatives but offer perspectives from different sectors. Without legislation, or perhaps with legislation, how could we change the role of individual LEC members to be representatives rather than individuals with a perspective?

Alan Sim talked about replication and duplication in the delivery of local economic and business support. It is part of our objective to eradicate that, but we have been told that the existence of different identities at a local level adds value to the process; it reaches parts of business that a centralised system would not. You seem to suggest a system of voluntary collaboration between LECs and enterprise trusts. How will you reconcile that with the added value that results, allegedly, from the local identity that enterprise trusts and others add to the process? For example, will the k-web be sophisticated enough to access information on local labour markets that might otherwise be inaccessible?

When we first met Scottish Enterprise way back at the beginning of this process, when many of us were new to our role, we were told about the debate in Scottish Enterprise on opportunity versus need, which had dominated proceedings in the 1980s and 1990s. You seem to suggest that there has been a victory for those who favour developing opportunity—as opposed to addressing need—and passing on the arduous task of regenerating local communities that have been hit hard by the demise of their manufacturing base from Scottish Enterprise to local government.

Is that an accurate reflection of what you think?

Robert Crawford: No. There are two separate issues here. Economic inclusion is fundamental, but it is for the department and the review to decide finally what we do on that. If I can be specific, certain programmes that we have been looking at are centred on economic inclusion but have a strong social dimension.

Regeneration involves a different set of issues. What I was saying to the journalist was that 10 years or so ago, regeneration was a mainstream activity for the Scottish Development Agency; indeed, that remained the case through the early stages of Scottish Enterprise. Regeneration remains important, but there are now different kinds of regeneration. Sadly, manufacturing decline has accelerated. Many, but not all, the scars that were left behind have been removed, so there has been a shift in agenda and requirements.

This is arbitrary, but if you tried to typify what we will be as an organisation in the next five to 10 years—assuming we are still here—we will be much more about growth agenda items. To link that back to economic inclusion, those growth agenda items are as important for the economically excluded as they are for those who are included, because they talk to opportunity. The opportunity will come, in the main, from new economy sectors; for example, a key challenge would be, “How do we get more modern apprenticeships in the software industry?” Currently, about 60 per cent of modern apprenticeships go to the four traditional industries; that is okay, but there is a raft of new industries out there, with which we need to engage.

I think, and hope, that we will continue to have a real role to play in regeneration, but the nature of the regeneration programmes is changing.

Sir Ian Wood: The direct answer to the third question—on opportunity and need—is that, if anything, there has been a swing more towards need than opportunity in the past two years. In a number of ways, the new Labour Government and the new Scottish Executive have increased the emphasis on need in their programmes. That issue is of significant importance and is worthy of debate; I hope the Scottish Executive review will come up with some clear views on that. It is not a dichotomy—our view is that both are extremely important and justified, and that in any restructuring you must be careful about breaking the link.

On Mr Wilson's first point, perhaps I caused some confusion. When we talked about the members of LECs being more representative, we meant more representative of their wide

community, not just the business community. I was not suggesting that the LECs become unitary bodies to which you appoint person A to represent that group; that would be counterproductive. It is extremely important that an SME is represented and that there is a member from the voluntary sector—that those skills and that knowledge and experience is included in the LEC.

Alan Sim: I will pick up Mr Wilson's point about diversity at the local delivery level. I was interested that he used the word "allegedly". Scottish Enterprise would never allege that diversity itself adds significant value. The value that we see in our supply chain is in the representative composition of, for example, the local enterprise trust network. The network is deeply embedded at a local community level. In all the work that we are proposing to do, we are in no way undermining that—in fact, we believe that we will strengthen the enterprise trust network. Everything that we are doing is being done in consultation with the network.

However, we want to remove the confusion that arises from diversity. We want to hang on to the values of representative boards that run bodies at a sub-regional level, but we want to remove the confusion over identity. There is value in having broad representation, but there is also the downside of confusion, which we want to address.

Marilyn Livingstone: I will try to keep my points brief.

The Convener: Good, because we are beginning to run out of time, as usual.

Marilyn Livingstone: My questions fall into three categories. The first is business support. Like Allan Wilson, I am concerned about delivery at a local level. My direct knowledge comes from Fife and the work that we have done in this committee. I believe that partnership is beneficial and that local authorities have brought a great deal to the table. Branding, and the removing of confusion, is important, but you have to let other partners be a part of that. Branding is a sensitive issue which I hope the committee will come back to. You have to make other partners feel involved, so that they do not feel that the enterprise company is the dominant partner. That has happened in the past, as I think you would accept.

What about companies that are not high-growth and would be seen as more of a risk? How will they be supported? We have talked a lot about high-growth companies, but if we are to sustain entrepreneurship in Scotland, we have to consider risks. I would like your comments on that.

My next category is training. I read in Robert Crawford's article that training programmes may be offloaded from the enterprise companies. How do you think that might pan out?

I have a more specific question on Scottish vocational qualifications—one that I think I have asked at every meeting of this committee. Perhaps Evelyn McCann can answer it. When will enterprise companies take on board the view—not only of this committee but of the whole education establishment—that SVQs are often not appropriate for skillseekers? When can we have some flexibility?

My last category is the equality agenda. How will Scottish Enterprise begin to influence and develop mainstreaming in the network? As we all know, there is still occupational and industrial segregation.

Alan Sim: I will answer Ms Livingstone's questions on business growth. The issue that you raised about branding and the position of local authorities is vital. I recognise the sensitivity of the issue and the dominant LEC syndrome that you described. The propositions that we are considering at the moment with our local partners is that there will be a brand and that there will then be space for attribution. That will be funded and supported by the local enterprise company and the local authorities as appropriate. The brand will be consistent across Scotland, but it will have attribution at the local level for those who make a significant contribution either financially or as contracted deliverers of services. Provision is being made for that.

The need to support the non-high-growth business sector is the primary driver for the proposition to rationalise high-growth support. Across Scotland, it is undoubtedly the case that practitioners find the high-growth businesses the most stimulating and interesting. We have 13 centres that do different things to support them. If we move to regional centres of excellence to support the high-growth businesses so that smaller groups of people can focus on them, that will leave a larger resource at the local level to do the volume part of the business, which is not the high-growth stuff. We want to be more efficient and to use the limited resources that we have more effectively. It is not to solve the problems of high-growth businesses that we are considering the regional centres, but to provide a more appropriate resource to deal with the volume part of the business.

Robert Crawford: I was correctly quoted in *The Herald* as saying that I

"differentiate skills from the volume training side of things"

and that we need to consider

"whether we are as effective in that area as we should be."

We need to work on skills and we need to define what we mean by skills. It would be presumptuous and pre-emptive of me—and I do not intend to be

either—to suggest to the department, in the context of its review, where volume training should lie if not with us.

Evelyn McCann: I shall pick up on the point about SVQs and equality. Scottish Enterprise is given grant-in-aid targets for delivering its training programmes. There are three specific targets. The first is the number of young people whom we train, the second is the number of SVQs those young people achieve and the third is employed status.

We are pleased to report that the majority of young people who go through our programme—more than 50 per cent—achieve a qualification. However, we have pointed out to the Scottish Executive on a number of occasions that we believe that there are some young people who are not ready to progress to the SVQ. The Scottish Executive consulted last year on a number of documents, the most significant of which was “Opportunities and Choices”. We await the response to that consultation exercise.

In responding to that consultation document, Scottish Enterprise said that we wanted to introduce some flexibility in how we measure outputs, particularly in relation to those young people who would not benefit from SVQs or would not be able to achieve an SVQ in the time during which they were eligible for skillseekers support.

11:00

Marilyn Livingstone: At a previous meeting, I questioned your predecessor about this. I was told that SVQs are the only qualifications that are recommended to the vast majority of trainees because they are easy to count. In my previous life, I worked in further and higher education and I can tell you that SVQs are not suitable for the vast majority of young people because they do not enhance their personal and social skills, but teach them only about work. SVQs are great for people for whom they are suitable, but higher or further education should offer students a choice of qualifications, including higher national certificates, general Scottish vocational qualifications or national certificates. The new deal offers the same choice.

The only people who are restricted to SVQs are skillseekers. There should be discussion with employers, local colleges and guidance people about what is suitable for each young person. They should be given the same choice as every other young person or adult. I would like total flexibility within the skillseekers programme.

Evelyn McCann: I mentioned the grant-in-aid targets. Achievement of a qualification is one of the conditions on which we are given money to support the programme. As I said, we have made representations to our colleagues and we hope for

some response to the “Opportunities and Choices” consultation.

Robert Crawford mentioned the interest that is now being shown in modern apprenticeships. I am disappointed that 80 per cent of the people who are pursuing modern apprenticeships are males. We are concerned about how to get across to young females the message about many of the opportunities that are available. Through our education and business partnerships, we work closely with schools. It is important to recognise that many of the decisions that young people make about career choices are informed before they choose their modern apprenticeships. We are not complacent about that.

In the further education sector, young ladies are more successful in academic achievement, but fewer young ladies go on to do higher qualifications at university or college. That is something that we are interested in, but we want to work with other organisations to ensure that we can bring those opportunities to the attention of young people, and young ladies in particular.

Nick Johnston: I would like to go back to what Scottish Enterprise was set up for 10 years ago. Is job creation still high on your list of priorities? Are you content that Scottish Enterprise and the enterprise network assist in only 20 per cent of business start-ups?

I draw your attention to your predecessor's response to conclusion 8. Do you acknowledge that small businesses—one or two-man companies up to 10-man companies—provide a great deal of employment in Scotland? Do you feel that displacement means that some small businesses do not get support or help from the enterprise network or from enterprise trusts because of the concentration on high sustainable growth potential?

Finally, will you address the attitude to risk in Scotland, from an entrepreneurial point of view and in the enterprise network? How will you change a culture in which failure is frowned upon? In America, failure is often seen as an opportunity.

Robert Crawford: We are still very much about job creation. However, we must recognise that we cannot create jobs by ourselves; we do it in partnership with other people. Moreover, all the evidence that I have ever seen suggests that job creation is an outcome of competitiveness gain across the economy as a whole. Effective and competitive companies, whether small or large, create jobs. We need to facilitate that process to the fullest extent possible. To refer back to a question posed, in part, by Mr Wilson, there is a new economy which poses certain questions with which we have not dealt in the past, because they did not exist. Our role is to understand where we

are most effective in facilitating competitiveness gain among businesses—companies and individuals. Jobs will be created as a by-product of that and job creation remains a mainstream activity for us, by any standard.

Alan Sim: I will pick up on the specific points as they relate to small business. The question was whether Scottish Enterprise is satisfied that it participates in only 20 per cent of the new business start-ups in Scotland. The answer is that we would be delighted if we did not have to participate in any. The ideal world to which we aspire is one in which the dynamic in the business community is such that there is no need for public sector support. It must be noted, however, that against the last quarter of last year, the trend in new business start-ups in Scotland is falling. The percentage of start-ups directly assisted by Scottish Enterprise and its supply chain has increased. We are trying to extend our targets and support more businesses where there is a need to do so. It is true, however, that the majority of the more successful businesses do not come near Scottish Enterprise in the start-up phase. They come at a later stage when they are more mature.

It has been the case that not all small businesses receive support from the network. There has been some resource management. One of the things that I omitted to mention is that under the new proposals, we will offer some support to any business that asks for it. That will not necessarily be financial support, but we will make a customer promise to provide some form of support, whether guidance or whatever.

There are issues about using public money for purposes of displacement, for example to start up a business in an adjacent high street which will simply result in the demise of an existing business. We have to do some technical analyses before making investments of that kind. Under the new regime, we are moving towards a promise for all that we will provide some form of service.

Sir Ian Wood: The attitude to risk is one of the central reasons why a body such as Scottish Enterprise should exist. In the past 10 to 15 years, there has been a significant shift towards enterprise and risk taking in Scotland. You need only talk to young people and consider the number of people going into business studies and business-related activities to realise that that shift has taken place. Yes, we are way behind the United States, but the US has the ultimate free enterprise attitude and approach in the world.

One of the problems that we have is that it is very hard to measure some of the things that Scottish Enterprise does. How do we measure changing attitudes? We run "Business Bites" on Scottish Television three or four times a week. It costs a lot of money, but it is purely about trying to

get across the challenge and interest of starting up a business. We are trying to persuade people that they should consider that option. Changing attitudes can be quite frustrating for a business person, because it cannot be measured. However, we believe that we must be prepared to allocate a fair amount of our budget to doing that. Our communications agenda has been criticised, but part of it is about changing attitudes.

Thirdly, we are very happy with and support in every way the Executive's current review of Scottish Enterprise. Whatever the Scottish Executive, in its wisdom, decides should happen to Scottish Enterprise in the future, the private sector must continue to be significantly involved and there must be an empowered body that thinks long term, takes risks and is ambitious on Scotland's behalf. If we do not have that, we will lose the essence of a Scottish Enterprise-type body.

Elaine Thomson: My question is more for clarification than anything else. You mentioned using extra expertise from an international consultancy for an incubator e-space project. Is that project separate from the four hi-tech growth units that you talked about?

Robert Crawford: Yes. I used it as an example in response to Mr Lyon's question on the need to be more creative and to engage with external bodies to bring in financial and experiential resources that we do not possess.

Elaine Thomson: Will the hi-tech growth units support e-businesses, dotcom companies or whatever you want to call them? This inquiry and the business in the chamber meeting have shown that such companies need a different kind of support.

Robert Crawford: That is true. However, all businesses, not just e-businesses, will be affected by e-technology, and we intend to provide business advisory service for the deployment of such technology regardless of the business. As the tourism industry, for example, will be profoundly affected by e-technology, advice to those businesses would form part of that service.

Elaine Thomson: I should say that I share some of Elaine Murray's concerns on this matter. On the subject of who will decide the location of the four regional hi-tech centres of excellence, you mentioned a group of LECs in the Strathclyde area. I might have picked this up incorrectly, but I presume that that group will not be making that decision.

Alan Sim: You have picked it up incorrectly. I used the anecdotal example of the Strathclyde LECs to illustrate the fact that conversations about deciding on the location for these centres of excellence are happening around the regions of

Scotland. I must clarify any misconception that I might have given birth to. We are not creating anything new; we will focus resources on an existing LEC centre to provide the high level of support that companies need.

The Convener: I want to conclude this line of questioning on a heresy. Why do we need four centres of excellence in different parts of Scotland? We have heard all this rhetoric about e-this and k-web that; why not put that into practice and have just one centre of excellence located in Scotland and allow access to advice and information that is readily supported by e-technology?

Robert Crawford: As you know, I am very enthusiastic about e-technology. However, at some point, people just need to get together physically; we all behave traditionally and will do so for some time to come. Consequently, the question is whether there should be three, four, five or however many centres of excellence. One centre is not enough; if the centre were based in Dundee, for example, it would mean significant travel and cost for me to get there from West Kilbride.

This goes back to an earlier point about physical overhead requirement. It is clear that, as we proceed, we will probably need less of a requirement, but we do not yet know how much less. One centre would not be enough because it would not meet the needs of the whole country.

The Convener: I do not want to get involved in a travelogue of Scotland or a debate about accessibility; I am simply raising a point of principle about a method of operation that the enterprise network should perhaps not lose sight of in its forward thinking.

Sir Ian Wood, do you have any final remarks?

Sir Ian Wood: I have some brief points of clarification, because I do not want to mislead the committee either.

We will provide the committee with full details on Professor Hugh Begg. Robert Crawford has pointed out to me that Professor Begg might be an internal appointment to Scottish Enterprise, although he has been given independence. We do not want to mislead the committee on that point.

Secondly, skills training and volume training were mentioned several times this morning. Such forms of training are the subject of a separate debate and assessment; I repeat my comment that there is no dichotomy between the two. There is a grave danger that by separating out volume training or social training, we will lose a very powerful means of solving that problem, which is to pull such training back into the area of employment.

Thirdly, we have not spoken very much about partnership, which is one of the most abused words in the Scottish political and Scottish Enterprise agenda. LECs work extraordinarily hard at partnership, and part of the new agenda is to reinforce partnerships with local authorities and further and higher education. Although we need leaders to set strategies, we must also clarify implementation in the context of local strategy and we support a strong local strategy in which all the main players participate.

The Convener: I will close the discussion by thanking the witnesses for their contributions. The committee is moving to a conclusion of the inquiry and will more than likely report on the issues in mid-May. Thank you.

11:16

Meeting continued in private until 12:45.

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