

# **AUDIT COMMITTEE**

Tuesday 20 January 2004  
(*Morning*)

Session 2

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## **AUDIT COMMITTEE** **2<sup>nd</sup> Meeting 2004, Session 2**

### **CONVENER**

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

### **DEPUTY CONVENER**

\*Mr Kenny MacAskill (Lothians) (SNP)

### **COMMITTEE MEMBERS**

\*Rhona Brankin (Midlothian) (Lab)  
Susan Deacon (Edinburgh East and Musselburgh) (Lab)  
\*Robin Harper (Lothians) (Green)  
\*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)  
\*George Lyon (Argyll and Bute) (LD)

### **COMMITTEE SUBSTITUTES**

Chris Ballance (South of Scotland) (Green)  
Mr Ted Brocklebank (Mid Scotland and Fife) (Con)  
\*Marlyn Glen (North East Scotland) (Lab)  
Mr Andrew Welsh (Angus) (SNP)

\*attended

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

Mr Iain Carmichael (Scottish Enterprise)  
Dr Robert Crawford (Scottish Enterprise)  
Mr Charlie Woods (Scottish Enterprise)

### **CLERK TO THE COMMITTEE**

Shelagh McKinlay

### **SENIOR ASSISTANT CLERK**

Joanna Hardy

### **ASSISTANT CLERK**

Christine Lambourne

### **LOCATION**

The Chamber



## Scottish Parliament

### Audit Committee

*Tuesday 20 January 2004*

*(Morning)*

[THE CONVENER *opened the meeting at 09:36*]

### Items in Private

**The Convener (Mr Brian Monteith):** I open the second meeting in 2004 of the Audit Committee and I make the usual announcement about mobile phones and pagers—I am pretty certain that my phone is switched off. I welcome members of the public, the press and others to the meeting, although the first public part of the meeting will be rather brief. We have received apologies from Susan Deacon, who is in Campbeltown with the Enterprise and Culture Committee, and from Kenny MacAskill, who has to leave before the end of the meeting. Marlyn Glen is with us as a committee substitute for Susan Deacon, and we are pleased to welcome her along. When we are back in public session, before item 3, we will take her declaration of interests. We are pleased to welcome the Auditor General for Scotland and his team.

We have a busy agenda today. Item 1 is to consider whether to take items 2, 5, 6 and 7 in private. I seek the committee's agreement to do so. Item 2 is our consideration of lines of questioning of the witnesses for the report that we are preparing on Scottish Enterprise and item 5 is the committee's consideration of the evidence taken in that session. Item 6 is consideration of the draft report on our inquiry into the Auditor General for Scotland's report on supporting prescribing in general practice. Item 7 is consideration of our approach to the Auditor General's report on the national health service in Scotland.

Are we agreed that we should take agenda items 2, 5, 6 and 7 in private?

**Members** *indicated agreement.*

**The Convener:** Under item 1, we must also consider our approach to lines of questioning for the Parliament's accountable officer. I seek the committee's agreement that before Paul Grice appears before the committee—the date for that is still to be decided—we should consider our lines of questioning in advance in private session, so that we can determine what questions can most usefully be put. Do members agree that we should do so?

**Members** *indicated agreement.*

**The Convener:** Before we move on, I can inform the committee that we have had a brief discussion with Paul Grice, and we will probably have him before us for evidence at the meeting on 2 March. We will confirm that soon.

09:40

*Meeting continued in private.*

09:58

*Meeting continued in public.*

### Interests

**The Convener:** As we are back in public session, I remind members to switch off any phones, pagers or other such items, for the meeting's benefit.

I give Marlyn Glen the opportunity to declare any interests, as this is her first meeting as a substitute for Susan Deacon.

**Marlyn Glen (North East Scotland) (Lab):** I have no relevant interests to declare.

## Financial Scrutiny Inquiry

09:59

**The Convener:** Agenda item 3 concerns our financial scrutiny inquiry, on which a paper has just been circulated to members. I will speak to the paper, as members have not had a great deal of time to read it.

Members will be familiar with the fact that we intend our next significant inquiry to be on the financial impact of amendments to bills, with a particular interest in those aspects of the Standards in Scotland's Schools etc Act 2000 that involve moving to mainstreaming.

The clerks have prepared a paper about our remit, our relationship with the Procedures Committee and the inquiry's timing. The timing is important, because there have been developments since the committee last considered the issue. It will be useful if I point out that I have met the conveners of the Procedures Committee and the Finance Committee to map out what areas the various committees might be responsible for.

The conveners felt that in regard to the procedures for finance and how bills progress it is most appropriate that the Finance Committee has undertaken a great deal of work on that and is continuing to do so. The Procedures Committee is the committee where changes to how the Parliament and its committees operate are considered and therefore any suggestions or recommendations about changes to our procedures would come from that committee. Taking that into account, it was believed that the Audit Committee could be most helpful in looking at procedure during the passage of the Standards in Scotland's Schools etc Bill, specifically in relation to the amendments that brought about changes to the bill that had financial implications—amendment 113 in particular, which was lodged by the Executive at stage 2. We would draw some conclusions and possibly make some recommendations and we would give those to the Procedures Committee, which could incorporate them into its inquiry into the Parliament's procedures.

Since that discussion there has been some movement by the Procedures Committee in that it has decided to complete its inquiry by the summer, which is a little sooner than we had initially anticipated. As members will see, that is very important for the timing of our investigation.

The clerks have drafted a remit for the inquiry; it is outlined in committee paper AU/S2/04/02/1, which members have before them. It seeks to outline the area that we will look into in respect of how the amendments to the bill were considered

and the cost implications of the amendments. We would consider whether the practices and procedures that were in place were sufficient for members to give full consideration to the cost implications, or whether procedures were lacking.

As I said, the role of the Procedures Committee would be to consider our report and produce some suggestions. We would call for written evidence and, following that, we could then consider calling for oral evidence. It may be that at that stage we may want to take oral evidence from some people who were involved in the scrutiny of the bill at stage 2.

It was flagged up in our initial discussions that it might be useful if we were able to have some comparative information about what happens in other legislatures at the stage when amendments that have financial implications are lodged. Considering how other legislatures treat that procedure might give us an idea as to whether it was the case that a lack of evidence or a lack of information contributed to members not being able to see the financial implications of the amendment.

It would still be for the Procedures Committee to make any recommendations. Any research that we did would be passed on to the Procedures Committee and shared with them. However, because of the decision by the Procedures Committee to change the timing of its inquiry and move quite quickly, it is clear that if we were to commission external research, the schedule would be very tight; it may be too difficult to obtain the research on such a tight time scale.

The paper outlines that if we were to commission external research, rather than ask the Scottish Parliament information centre what it can pull together, we would have to seek agreement at the next Conveners Group meeting on 26 February and put out to tender a contract that would give the consultants a month to pull the research together. I do not know how familiar members are with external research, but that would be fairly quick; a good deal more time is usually given. It may be that members feel that that is asking too much or they may feel that we should test the market and see whether there are consultants that could produce the research in time. I am interested in members' views.

If we decide to go down the external research route and nobody comes forward, we would have to ask SPICe to look at the issue. If we decide not to go down the external research route, I suggest that we would look for SPICe to do the research anyway. I seek members' views on that matter. A detailed explanation of the tender process is in the paper.

I invite comments from members on the remit and the research issues, because those are most germane to what we can decide today.

**Rhona Brankin (Midlothian) (Lab):** I am slightly confused in that when we discussed the issue originally my understanding was that it was probably more something for the Finance Committee, but obviously you had a discussion with the convener of that committee. The paper states:

"Since then the focus of the Committee's interest has narrowed to concentrate on the consideration of cost bearing amendments in relation to the passage of the Standards in Scotland's Schools Act".

I do not remember that decision being taken. My understanding was that the discussion between this committee and the Finance Committee was on the broader issues and that any research would have been to examine how often there had been mismatch and how that had arisen. I had no understanding that we were going to be looking in detail at the Auditor General's report "Moving to mainstream: The inclusion of pupils with special educational needs in mainstream schools".

**The Convener:** The whole reason for the inquiry is that that report drew attention to the Standards in Scotland's Schools etc Act 2000. We decided not to examine the overall issues in the sense of what is happening out in the schools. We decided that what we should look at—because it was drawn to our attention by the Auditor General's report—is whether there was sufficient information for members to have made a decision.

My discussions with the convener of the Finance Committee established that that committee is particularly jealous of its interests in relation to the actions that it has taken since the Auditor General drafted his report, the changes that have been made and the fact that it is keen to make further changes. When I reported back to the Audit Committee previously, it was purely to suggest that we should therefore consider what happened at stage 2 of the bill that subsequently became the Standards in Scotland's Schools etc Act 2000. It is a minuted decision that we stated that we would consider that aspect so that we could say, in relation to the Auditor General's comments in his report, what happened at stage 2. That may be of use to the Procedures Committee when it discusses whether changes to procedures should be made. There was no intention of going beyond what happened at stage 2 of the bill.

**Margaret Jamieson (Kilmarnock and Loudoun) (Lab):** The paper is certainly helpful, because it provides further information; up until now there has been a lack of information. Having read it, I feel that my view is clear. The issue is a fundamental one for the Procedures Committee, in order that it can consider how bills progress through the various stages of the parliamentary process and examine what procedures should be put in place to overcome the issues that have

been identified with regard to the passage of the Standards in Scotland's Schools etc Bill.

Having come to that view and having considered the other points in the paper, I believe that were we to undertake the inquiry the schedule would be far too tight to include within it a proper piece of research. We should perhaps say to the Procedures Committee that we will not be involved in that. Given that the Procedures Committee has set the timetable, it is for that committee to have that research done.

**Mr Kenny MacAskill (Lothians) (SNP):** I hear what Margaret Jamieson says, but it does not really matter which committee does the research, as long as it is done, because we are trying to resolve a problem—one that arose through a difficulty in procedures. Before I relinquish ownership, I want clarification that the Procedures Committee will consider the matter from the perspective that we would want. Some research would be beneficial, but it would be fairly limited. It would amount only to some letters or phone calls to a small number of people here or there. All that we need to know is whether there are checks and balances to ensure that financial implications do not rocket.

My only worry about the Procedures Committee is that it might be less specific than we would be, and much too general. There may be an argument for our having a specific look at the bill that rocketed and then adding that research to the general research of the Procedures Committee.

**George Lyon (Argyll and Bute) (LD):** Originally, when we looked at Audit Scotland's report on mainstreaming, the issue that leapt out of the page was how on earth legislation was passed without the huge financial impact being recognised. It clearly was not recognised as the bill went through committee procedures.

What I want—just as I did when we first discussed this—is reassurance that what happened will be looked into in some detail and appropriate measures taken to alter the procedures of the Parliament to ensure that it can never happen again. This paper from the clerks leads me to ask how we can achieve that and what the Audit Committee's role will be. The clerks have made it clear that this inquiry would be quite different from

"the Committee's normal scrutiny of whether public funds have been spent with due propriety, economy, efficiency and effectiveness."

There seems to be a complete overlap between what we are proposing to do and what the Procedures Committee and Finance Committee are already doing. Like Kenny MacAskill, I want a categorical assurance from the Procedures Committee that, if we relinquish this piece of work,

we will get a cast-iron guarantee that it will investigate the matter properly and come up with recommendations to ensure that it does not happen again. I hope that the committee will agree that we should write to the Procedures Committee and get that assurance. If we get it, I will certainly be happy to allow the Procedures Committee to deal with this, because it is, after all, a procedural matter. The paper makes that quite clear. The Audit Committee's role is to sound the alarm bells about how the situation arose, but it is not up to us then to sort out the procedures. That is for the Procedures Committee.

We must be assured that the matter will be looked into in detail by the Procedures Committee and the Finance Committee, which has a role because it scrutinises the financial memorandums that accompany bills. Only once we have that assurance will I be prepared to pass the investigation over to those committees.

**The Convener:** It might be useful if I go back to the discussions that I have had with the conveners of the Finance Committee and the Procedures Committee and try to answer your points—not speaking for those conveners but interpreting what they have said to me.

The idea of doing research came from this committee during previous discussions. We have no commitment to do research and there is no statement from the Procedures Committee that it wants research to be done. Any research will be purely up to us. We may want to ask SPICe to consider whether any useful information can be gathered, or we may want to commission further research. At our initial discussion, there seemed to be adequate time for research. That door now seems to be only ajar, rather than fully open.

Members seem to be asking whether this committee has any role in the matter at all. The Procedures Committee has a lot to look at and I cannot guarantee that it will give this issue the priority that members of this committee might want it to receive.

On the effect that procedures have on amendments at stage 2—be they from a committee, members of the Parliament or the Executive—our purpose, as we have discussed, was simply to consider what happened and to relay our evidence. When it comes to making changes, the Procedures Committee can then take that evidence on board.

We should not be sidetracked by the research issue. If we want to make this issue an important one on the probity and prudence of how we conduct our affairs in relation to their financial implications, the best way to achieve that would be to produce our own report and give it to the Procedures Committee. If the Procedures

Committee receives a report from us, it will have to give that report due recognition. If we produce a report, we will give the issue a priority that leaving this to the Procedures Committee alone would not. It is important that we do some work on this, but I am not by any means saying that we must commission research in order to do that. The *Official Report* offers enough written evidence of what happened. Having considered that evidence, I think that it might be worth asking a minister or an official along to explain what the thinking was. We will need to tease out the best way of taking oral evidence.

10:15

**Robin Harper (Lothians) (Green):** You seem to be giving us a choice between commissioning our own research and asking SPICe to produce something for us.

**The Convener:** If we want research.

**Robin Harper:** Could we ask SPICe to produce a report, at the end of which it could say whether it felt that any further research was necessary? We could then proceed to commission research to fill that gap.

**The Convener:** If we believe that external research is needed—and I sense from members that it is not—we would have to agree on that today because time is so short. We cannot wait.

We have a busy agenda so, before I let George Lyon back in, I would say that I want to bring this item to a close.

**George Lyon:** I do not think that this lies within our remit. There is a correlation with individual learning accounts; in that situation, we got a report from the Auditor General, we got accountable officers in, and we demanded changes. We wanted reassurance that the department would introduce the new ILAs and meet all our concerns. What we did not do was commission research and then say to people, "This is how you fix ILAs."

In this case, we have had a report from the Auditor General and we have flagged up our genuine concerns. It is now up to the Procedures Committee—which, after all, is dedicated full-time to dealing with the procedures of the Parliament—to go away and listen to our criticisms. I am sorry to say it, but if the Procedures Committee does not respond to what we want, we will go public and criticise that committee.

**The Convener:** Is that a proposal? At the moment, the position of the committee is that we will conduct an inquiry. We have discussed that. If the committee is now minded that we should not conduct an inquiry into what happened at the amendment stage of the bill, it strikes me that, if we want the issue to receive the priority that I think



we want it to receive, we will have to take some other form of action. Do you propose that we write to the Procedures Committee to suggest that the timing is such that it would be difficult for us to conduct the type of inquiry that we want to?

**George Lyon:** We want a cast-iron guarantee from the Procedures Committee that it will carry out its own inquiry and that we can be assured that it will deal with the matter to our satisfaction. This committee has a huge work programme. Given that the Procedures Committee is dedicated to looking at procedures, it is not ridiculous to ask it to do that and to come back to us when the work has been completed. We can judge then whether that committee has satisfied our concerns.

**Mr MacAskill:** I understand where George Lyon is coming from, but I am more hesitant. The Procedures Committee will look at the situation from a generalist point of view, predicated on the interests of business managers. We are looking at the financial results from a specialist point of view. Given that both committees are trying to work in the best interests of the Parliament, a brief piece of comparative research by SPICe would enable us to pass our perspective on to the Procedures Committee—rather than imposing it on the Parliament—because that committee's perspective is not the same as ours. If the Procedures Committee chose not to accept our perspective, we would need to go public, but I think that it might welcome some input because it will be looking at an array of other matters from a different perspective.

**Robin Harper:** I support that suggestion. It could be fitted into our programme. It is just a question of considering a SPICe report and deciding whether to pass it on to the Procedures Committee. There is no doubt that we would pass it to that committee for its further consideration, with some recommendations attached to it.

**Rhona Brankin:** We have a report from the convener on what the Finance Committee is doing, but that committee takes the view that it has looked at the matter. It feels that it has considered the issues and implications of what the Auditor General's report said. We are getting to the overkill stage.

**The Convener:** The Finance Committee does not intend to look at the financial scrutiny aspect. When the report came out and our response was that we were interested in that particular aspect, the Finance Committee acknowledged that. That committee has looked at issues of financial memoranda as well as making some other changes, but it has not taken up the financial scrutiny aspect of the report. We would have to reconvene a meeting of conveners to work out where we are going with the issue if we do not proceed along the lines that we agreed previously.

**George Lyon:** What about my proposal?

**The Convener:** Yes, we have a proposal from George Lyon that, instead of holding an inquiry into the matter, we should draft a letter to the Procedures Committee to say that we wish it to take up the financial scrutiny aspect. If we were to ask a committee to give us guarantees, it would probably be received with raised eyebrows, so all that we can do is to ask it to take up the issue and explain what priority we think that it should receive. Kenny MacAskill has given his view, but do others wish to comment before I seek to resolve the matter?

**Rhona Brankin:** I do not know whether I missed the relevant committee meeting so perhaps I am culpable, but I certainly had a fundamental misunderstanding about the role of the committee in relation to that work. I support asking the Procedures Committee to undertake it.

**The Convener:** Okay. Am I right in sensing that, were we to go ahead with the work, we would not undertake the research? Given the timing, the research would not be commissioned. That being the case, and given the divergence of views on the line that we should take, the timing becomes less problematic. It would be possible for me, therefore, to meet the Procedures Committee convener to ascertain what that committee is willing to do, to explain our concerns and to find out whether that committee is willing to take them up—those proposals will be in the *Official Report* because we are in open session. I will then report back to our committee so that we can take a final decision about whether we or the Procedures Committee should take up the financial scrutiny aspect.

**George Lyon:** That will do fine and I will speak to the Procedures Committee convener as well.

**The Convener:** Everybody is free to speak to him. I will arrange that meeting and then report back.

## Scottish Enterprise

10:27

**The Convener:** Agenda item 4 is on the Auditor General's report "Scottish Enterprise: Special audit examination". I understand that the facts contained in the report, as with other Audit Scotland reports, have already been agreed. Today, we will ask questions about Scottish Enterprise's performance, whether management arrangements are adequate and provide an accurate picture of performance, whether Scottish Enterprise is managing its major projects well and whether its arrangements for the appointment and monitoring of consultants are adequate and represent best practice.

I welcome representatives from Scottish Enterprise: the chief executive, Dr Robert Crawford; the senior director of finance, Mr Iain Carmichael; and the senior director of knowledge management, Mr Charlie Woods. We have your written submission, but if you wish to say anything by way of an introduction, please take three minutes to address the committee. We will then have some questions for you.

**Dr Robert Crawford (Scottish Enterprise):** Good morning. We thank you for and warmly welcome the opportunity to come along and answer your questions this morning.

The starting point of the inquiry was when media allegations were made last year that four landmark projects were "close to collapse", that funds were being transferred from enterprise companies to "shore up" the four projects, that £32 million of European funding was lost and that eight out of 12 so-called key performance targets were being missed. We welcome Audit Scotland's confirmation that those charges are unfounded and that subsequent allegations regarding the international premier adviser programme are also largely unfounded.

As far as allegations about the use of consultants are concerned, neither Audit Scotland nor the Auditor General suggests that there were too many consultants or that they were used inappropriately. We are also encouraged that Audit Scotland's unqualified opinion on our account confirms that there are no major control or propriety issues. We have a close working relationship with Audit Scotland, which we regard as important to the organisation's good management. I hope—indeed, I am sure—that that relationship will continue.

10:30

Understandably, Audit Scotland has called for a tightening of some of our procedures and we are

already doing that. As the Auditor General has acknowledged, we have used a lot of information provided by our internal audit unit to develop a 19-point action plan to address the issues. Thirteen of the 19 actions will be completed by the end of March and the remaining six will be completed during 2004.

Members will have received a full copy of the action plan as part of the written evidence that we submitted last week. As you will have noticed, it is not a so-called root-and-branch overhaul; instead, it is a necessary and important continuous improvement programme that any public or private organisation of our type should undertake in partnership with its auditors.

At this point, I should say that a public organisation such as Scottish Enterprise should be open, transparent and accountable. That is one of the reasons why, four years ago, we introduced a system of establishing performance measures at the start of each year and reporting on them throughout the year and why we have such a good internal audit process. It is equally important to point out that that necessary and important scrutiny should be based on observable facts and not informed by the kind of wanton allegations that have so damaged the organisation's reputation and morale over the past 12 months.

A major part of Scottish Enterprise's ethos is to tackle issues when market forces have failed to do so. It is my passionate belief, based on experience, that it is appropriate for Government and public agencies to be encouraged to do that against a backdrop of necessary risk analysis and of necessarily intense scrutiny from this and other committees for the public at large. However, we have to be able to take appropriately measured risks if Scotland is to establish a strong place in an increasingly competitive global economy. I welcome the opportunity to answer members' questions this morning.

**The Convener:** Thank you for keeping to the allotted time, Dr Crawford. Our first set of questions centres on performance management arrangements, which you touched on in your introductory remarks. During 2002-03, the planned contributions from local enterprise companies and the Scottish Enterprise network exceeded the network target in 16 of the 22 targets set out in the operating plan. How do you reconcile the planned contributions in setting performance targets for the year? Why were 16 of the 22 targets set below what was considered to be achievable? Does that mean that Scottish Enterprise has resources that exceed what it needs to achieve its targets?

**Dr Crawford:** Four years ago, we very publicly introduced targets because we felt that it was necessary to be judged against the challenges that the Executive had set us. We also felt that it

was necessary for our executives and staff members to be given challenging targets. At least they now understand what they are being measured on.

The LECs, which are the operational units of Scottish Enterprise and overwhelmingly the bodies that deliver against those targets, also set targets that are higher than those that we give them, because of the necessary incentive to ensure that they hit what we regard as challenging targets. In a sense, they are making things harder for themselves on the assumption that, although they might fail against their internal targets, they will at least hit our operational targets.

We believe that the targets are stretching and challenging, particularly in those areas that we know about. However, in many of the new areas—which, by definition, are *terra incognita*—we do not know how challenging the targets will be. If you wish, convener, we will talk about that issue in a moment. Our staff members are deeply serious about the rigour with which we institute and measure targets. After all, if one measures something, people tend to act in accordance with what they are being measured against. Indeed, members might want to raise that issue later.

The short answer to your question is that we absolutely do not have more resources than are appropriate. We have reduced the staff by more than 500 people. It is a tribute to Scottish Enterprise staff across Scotland that they have continued to perform effectively against that challenging backdrop of job losses and an annual increase in the number of targets over the past three years.

I am sorry if I have spent rather longer than you would have wished in answering your question. Charlie Woods is the custodian of our performance management system and I am sure that, if members deem it appropriate, he will be glad to respond to questions.

**The Convener:** I think that that would be appropriate. As you will gather from my question, we are trying to allay people's concerns that the targets are set too low and are therefore easily achievable.

**Dr Crawford:** I understand that.

**Mr Charlie Woods (Scottish Enterprise):** It is important to acknowledge that the targets that measure the volume of our in-year activity and the outputs that we achieve are part of a much wider framework that includes an analysis of how the wider economy is doing, customer satisfaction and project evaluations. We are trying to set targets not individually but across a balanced portfolio of activities including some major-volume activities and projects such as the intermediary technology institutes.

As for setting the figures, we do not try to limit our ambition. Instead, we seek to set a realistic goal that people can strive to achieve and—I hope—more than achieve. As a result, we are always encouraging LECs and other business units to have aspirational plans within our own targets.

**Dr Crawford:** I am glad that you have raised the issue, convener. We want targets that people are comfortable with. At the beginning of the year, we share them with stakeholders, the media and the Executive. Indeed, by that point, they have already been discussed with the Executive and the Scottish Enterprise board. We have nothing to hide. We introduced the targets four years ago and each year we have increased the number of targets to try to embrace the extent of our activities.

The problem is that out there in economic development land we do more such work than any other economic development agency that we can find anywhere else on the planet. If the system can be improved and made more rigorous, I am sure that my successor will welcome—as I would have done—a dialogue on how that might be achieved. I know and welcome the fact that Audit Scotland wants to examine that issue. We have no problems with that.

**Mr MacAskill:** My question is in a similar vein. As late as May 2003, your management information system was reporting that you would achieve only three of your 12 network targets in the year ending 31 March 2003. However, you eventually recorded that you met eight of those targets. How did that situation come about? What does it say about your in-year reporting of performance against targets?

**Dr Crawford:** I would like Charlie Woods to pick up on that question, too. I do not want to overcomplicate the process, because I realise that it involves levels of detail that many people might find hard to understand. I think that you are referring to the so-called Scottish Enterprise national targets, which are simply management information targets. The operational delivery vehicles for Scottish Enterprise are overwhelmingly the LECs, which do an outstanding job. The centre contributes to those targets in a variety of ways—not directly, but in an advisory capacity. As a chief executive, I need to understand how much information, support and guidance the centre is giving the LECs. As a result, those 12 targets are key performance drivers and relate to management information. In the year that Audit Scotland examined, there were 22 such targets.

In many public and private organisations, it is unlikely that there will be an equal distribution of output through the course of the year; output will

vary by sector. For example, retail industries will report rising graphs around Christmas and falling graphs in the following quarter. The oil industry is driven by different considerations. In our case, many of the targets become deliverable only towards the end of the year. It is important and appropriate that we hit the targets that we have given, published publicly and discussed through the course of the year. Frankly, I think it extremely unlikely that we will ever have an equal distribution through the course of the year, because in many cases the system simply does not work in that way. The end result kicks in only in the final quarter.

**Mr Woods:** Part of what that question addresses is the fact that at the end of each year we examine systematically what has been recorded to ensure that it is accurate. If we were seeing big changes at the end of the year in relation to the targets for the network as a whole, that would give cause for concern. I refer to the changes that were made as a result of the verification process. Twelve of the targets did not change, two of them changed by less than 2 per cent and two of them changed by between 2 per cent and 2.5 per cent.

As far as our managing performance against the network targets as a whole is concerned, there were not massive changes. Part of the reason for that is that the contributions for many of the targets that the Scottish Enterprise national units record are relatively small. In the high-growth business starts, about nine companies were not picked up in year, but we found them when we did the verification and checking. That is quite a big number in the context of the Scottish Enterprise national units, but it is relatively small in the context of the network as a whole. We certainly need to tighten up on that; if we can improve the quality of recording over the year so that we do not have to make changes at the end, that would be a much better situation.

**Dr Crawford:** Many of the targets that Scottish Development International—previously known as Locate in Scotland and Scottish Trade International—has for inward investment can take nine months to a year and in some cases longer to deliver. I am being terribly candid with you, because it is important for the organisation's going forward. I do not think that it is likely that for many of the organisation's activities there will ever be an even distribution of performance throughout the year. In many of the areas in which we are working, including the one that I just mentioned, that is just not going to happen. With the greatest respect, I have to say that I do not regard that as a problem.

I am a football fan so I will use the analogy of a football match. A game lasts 90 minutes and what

matters is that the team wins at the end of the game, rather than when the goals are scored—I know that neither the committee nor Audit Scotland is suggesting that that is important. Just as goals are not distributed equally during the 90 minutes, in many cases there will not be even distribution. Charlie Woods makes the point, which I accept completely, that if we need to improve distribution and effectiveness throughout the year, we will do so. We have nothing to hide on that front.

**Mr MacAskill:** You obviously believe that better reporting of target achievement comes about from a variety of measures in relation to LEC reporting and recording. Have those improvements made the management system more reliable? Is more work being done and, if so, what is it?

**Dr Crawford:** My colleagues might also pick up on the issue in due course. We have introduced a business transformation process with which a series of things are associated. Scottish Enterprise was created with a governance structure whereby its operational units assumed extremely significant autonomy. I make no comment on that; it is just a fact that that is the way in which Scottish Enterprise was created. Over time, quite properly, those units, in doing a great job, acted accordingly. We have spent some years trying to balance the need for local autonomy with the need for better information gathering, more certainty of delivery and more data. Most members of staff will tell you that that has made us more bureaucratic. We are continuing that process.

We are about to introduce a customer relationship management system, which is a fancy name for a database system that will allow greater uniformity of recording and sharing of information. We have introduced a single procurement hub—you might want to return to that issue, because it is important—which means that information on what we spend, where we spend it and how it is spent has become centralised. We are improving the process continually.

The fundamental issue, on which the Auditor General commented, is that there was a failure of documentation in some of the contracts—that is unacceptable and the system needs to improve, but it is easier to improve a documentation system if it is electronic rather than manual. Scottish Enterprise, like many other organisations, public and private, has had systems in which documentation was handwritten and hand inserted. We are moving towards an electronic system that will make the gathering, retention and sharing of information much easier than it has been historically. In that respect, we are similar to most other organisations in the public and private sectors.

10:45

**Mr Woods:** The important thing to recognise is that the performance data are recorded in the field. Improvements such as the CRM system are intended to make it easier for the field staff to record data as they go, so that they can spend more time doing their job and less time on data capture. There is an important balance to strike.

**Mr MacAskill:** You have commented on the unique size and scope of Scottish Enterprise. There are economic development agencies worldwide. What attempts have been made to identify suitable comparators for benchmarking purposes?

**Dr Crawford:** That is a good question. Some of us have been involved, in both the private and public sectors, with economic development agencies for some time. I spent a lot of time working with them in my previous job with an accountancy firm and before that with the World Bank. I may be wrong—and I am happy to be told that I am—but I think that Scottish Enterprise is the most diverse. Given our range of activities, from skills and training through business support, trade and investment and beyond, we are close to being unique in the world. Our close neighbours the Irish have three or perhaps four agencies doing what we do. In my opinion, what we do brings great synergies and opportunities, but, given our sheer scale, it also leaves us vulnerable to intense and understandable media interest, such as we have experienced in the past 12 months.

The answer to your question is that we examine other agencies all the time—Charlie Woods does that more than I do. We participate in forums in which other agencies come along and talk about what they are doing. During the past six months, I have spent a lot of my own time looking at the websites of other development agencies and the performance criteria that they apply. None was even close to us in terms of what they publish and what they do.

**Mr Woods:** We have regular dialogue with agencies such as those in Singapore and we have meetings with the New Zealand agency. In the overall measurement framework, we benchmark the overall performance and progress in the economy; the aspiration is to reach the top quartile of Organisation for Economic Co-operation and Development performances. There is an element of benchmarking in the framework as a whole and we would like to do more of it. My colleague who is directly responsible for that is at a meeting today with directors of the regional development agencies in England, discussing whether we can benchmark one another more. For benchmarking purposes, people have to be working in a similar context with a similar range of programmes and in a similar political environment.

**George Lyon:** You paint a picture of an organisation that has undergone tremendous change in the past four or five years. Your role was previously to do with big inward investment projects, but it is now focused much more on the knowledge economy and developing indigenous businesses. You have introduced centralised management systems, which have required a big change. You said that 500 staff have been shed. Is that right? You have also introduced a target-driven culture in the organisation. Have there been major problems with staff morale and disgruntled ex-employees? Do you think that that is a factor in some of the sniping that has been going on and in the criticism that has been levelled?

**Dr Crawford:** I am sorry for hesitating to answer; I was reflecting on the question. I will divide my answer into two parts. There have been problems with staff morale over the past 12 months and there have been devastating effects on staff. It has been difficult for me as well, given that I know how hard our staff throughout Scotland have worked for the country. Things are different for me: I am the chief executive so I am responsible and I am very well rewarded for that. However, it has been difficult for staff who hear criticism second hand and, in that sense, morale has suffered and that has been problematic for many people.

We laid 500 people off. Could that have been done more sensitively? Yes, almost certainly. I am a compassionate person, but we had to lay people off and, however well we reward them and make it clear that it is not personal, people feel hard done by. I regret that. I have been made redundant and the experience is damned unpleasant.

Although I cannot prove this, I believe that much of what occurred in the early part of last year was the result of members of staff being disgruntled either because of the redundancies or because they thought that I was responsible for running a regime that was too centralised and that we had introduced too many bureaucratic benchmarks or guidelines—you may call them what you want to. That is partly why we are here this morning.

There is a paradox in the reports. We think that we have gone an enormous way towards making the organisation more bureaucratic in an effort to ensure that we consistently gather information that you require. I worry about that. The problem is that, historically, that has not been the approach to the governance or the culture of the organisation, as I mentioned earlier. We introduced regimes that were definitely challenging for many people. I make no comment on whether doing so was appropriate, but, as an accountable officer in a changing political climate in Scotland, I judged that doing so was inevitable. As I am becoming more candid, I will state that my own view is that, if we

had not done so, we would have a much worse conversation this morning.

**George Lyon:** I have a follow-up question. Are you resolving tensions between the need for a target-driven style of management and the previous situation, in which there was complete autonomy in the operating divisions? Are things starting to come together? Are people starting to pull in one direction, or is there still a lot of tension in the system?

**Dr Crawford:** There probably is a lot of tension. In a sense, the system is structured around tension, but there is much less tension than there used to be. I cannot empirically prove this, but my best judgment is that there is greater acceptance of the need for constraints and uniformity than there was some time ago. I am being honest: a difficulty is involved in members of staff saying that there is less autonomy, as innovation might suffer as a consequence. That is an important issue. One thing that worries me about what has happened in the past 12 months is that we might repress people's enthusiasm for doing the unusual or the innovative and make them more averse to risk. If that happens, the country will be poorer.

Given what has happened in the past 12 months, it is hard to believe that Scottish Enterprise is widely regarded throughout the world as an extremely effective agency. The view that something must be bad if it is made in Scotland is a national problem. I do not accept such a view. I completely accept the need for accountability—we have tried to ensure accountability and we must get better at it—but if we instil uniform or centralised systems and squeeze out innovation, the country will be poorer. I hope that that will not happen.

**Mr Woods:** I would like to return to something that I said earlier. We are trying to introduce not so much a target-driven culture as a more rigorous system of performance management that balances a range of things and takes into account how we are doing against the economy and our performance in year. Our aim is to ensure that how we are doing in respect of customer satisfaction and what we are learning from our evaluation work can be measured. There is a performance-driven culture, so that we can try to improve performance and have an impact on the bottom line, which is to improve the performance of the Scottish economy. It is important to get across to people that targets are not being pursued for their own sake. We are trying to achieve better value for money from the money that is invested in us.

**The Convener:** Do members have any other questions on the issue that we are discussing?

**Rhona Brankin:** I was interested in Scottish Enterprise's range of performance management

tools, but Mr Woods has probably answered my question.

**Robin Harper:** I am sorry to ask a specific question about performance targets, but the issue is raised in the report. Was it extremely modest to set a target of helping only 50 businesses towards levels of environmental certification?

**Dr Crawford:** That might be the case. It is the first time that we have done that, so there is no benchmark against which to measure ourselves. Your observation might be legitimate and, if we need to improve, we will improve. However, to return to a point that was made earlier, the committee should bear in mind the fact that we do an enormous range of things. Some of us sometimes feel that the entire burden of the Scottish economy falls on our rather narrow shoulders. Because we do so many things and because we try to measure what we do, I dare say that we will get the initial assessment wrong in some areas, particularly in new areas, such as the case that you refer to. Let us improve and make things better.

There is a paradox. If Audit Scotland had tried four years ago to look at our work, it would have found it hard to do so—I say that with the greatest respect for its professionalism—because there was not much management information. In a curious way, we are here because we have produced that information.

**Mr Woods:** The question is interesting, because it throws light on a couple of areas in which we try to improve things each year. The target was chosen to give a steer and to show that the issue is important. We chose to help companies to achieve the environmental awards—that is auditable, in that it could be understood that companies had got the award with our help.

When we thought further about the issue, we realised that we were missing a bit of the picture, so this year we have set a much broader target for helping companies to improve their environmental performance—we have set a target of about 230 companies. That gets us closer to what we are trying to achieve but, by the same token, because there is no award, a question arises about how we verify achievement—that is one of the questions that Audit Scotland rightly raised. Instead of setting a target for its own sake, we are always trying to get to the essence of the work that we do, which contributes to improving the economy and the environment in the longer term.

**Rhona Brankin:** I am interested in the costs that are associated with the achievement of specific, key targets. How could the costs of achieving key targets be used in comparing the performance of the local enterprise companies and business units?

**Mr Woods:** Again, that is a reasonable question. As Audit Scotland says, we do not identify the specific costs of achieving a particular target. That goes back to the point that I made earlier about our portfolio being balanced across a range of things—key projects, volume targets and the like. We identify the costs of achieving each of the 12 objectives that are contained in “A Smart, Successful Scotland” and we identify the costs of specific projects. Because of the balanced nature of our portfolio, we think that it is appropriate to identify costs at the level of those 12 objectives and that that is the appropriate level for comparison. However, I accept the point that that makes the cost of achieving a specific target harder to compare across the network. That is one of the issues that we will work through as we try to pull together the organisation’s management information.

**The Convener:** As there are no more questions on management of targets, we will move on to the next section, which is on whether Scottish Enterprise manages its major projects well.

Scottish Enterprise recognises that its support for project ATLAS—accessing telecoms links across Scotland—could be construed as being state aid because it provides a competitive advantage to certain businesses that have immediate access to the telecom trading exchange or to the telecom network that has been established in 13 business parks. Was that issue considered in the decision to support the project? If so, what factors led you to support it? What is the future for project ATLAS if the European Union considers that it represents disallowable state aid?

11:00

**Dr Crawford:** As far as we are aware and according to the European Union, the first phase, which is the trading exchange, is not a state-aid problem.

The second phase includes broadbanding of the business parks, among other things. The legal advice that we took from the beginning was, and remains, that the project is state-aid rules compliant. It would be inappropriate for me to pre-empt a decision of the European Union, but we spoke to the EU some months before Thus plc—to be specific—made a complaint. We had no reason to believe that we were contravening state-aid rules.

I have in front of me a graph of broadband penetration, from the Organisation for Economic Co-operation and Development. If members want me to, I will go into the definition of what I think broadband is. On the graph, the United Kingdom is in the bottom third—Scotland’s performance is poorer than that of the UK as a whole—behind

such luminaries as the Faroes, Norway, Germany and Finland. The UK is miles behind Korea and the best of breed. I believe passionately that—subject to the sensible risk analysis that we have undertaken—development agencies should be undertaking work such as project ATLAS: if not, I do not know why they exist.

I do not say that to be cavalier or complacent; I say it with great respect. There is a perfectly good argument that state intervention is inappropriate in the best of circumstances; that is fine, but that is a different question. I believe that it is appropriate that an economic development agency do things such as project ATLAS. I do not know what the EU will say, but I will take it very seriously and I have no doubt that my successor will do what is appropriate. However, I still believe that we should be doing such projects. We had no reason to believe that we were working outwith European Union guidelines at the time.

My offer stands: if the private sector wishes to broadband the 13 business parks to the level that we are proposing, it can be my guest.

**The Convener:** As there are no other questions on project ATLAS, we will move on to talk about Pacific Quay.

**Rhona Brankin:** Pacific Quay has not achieved its job creation targets and the levels of private sector investment have been lower than was expected. Why are job targets being revised downwards? Why did Scottish Enterprise not foresee the importance of the Finnieston bridge as a means of attracting private sector investment and interest to the Pacific Quay development?

**Dr Crawford:** The decision to go ahead with Pacific Quay was taken in the late 1980s with, I imagine, the best information that was available at that time. I believe that the forecast at the time was for 3,500 jobs. The revised job count is approximately 1,800. Your question implies specifically and correctly that the Finnieston bridge was fundamental to the achievement of those job targets. I do not know what information was available at the time but I have to believe that, when the decision was made, it was made using the best available information, to the effect that the planning regime was sympathetic and would not cause a delay in the project. It is fundamental that we understand that that is what happened.

The big players, such as the BBC, and follow-on investors were understandably concerned that there should be a bridge across the river. The continuous planning delays prevented that. I assure the committee that, in my time, I have felt the frustration that others have felt about those planning delays. In no small measure, those delays prevented follow-on and private sector investment.

Could that have been foreseen at the time? Perhaps it was. I am sure that the best assessment was undertaken, but we are where we are with the project and I hope that it will now go ahead and that the BBC will invest in the site. I believe passionately that Pacific Quay will become a seriously important project for the people of Glasgow and the west of Scotland; it will put Scotland on the map of digital media campus activities. If members look at the front page of this morning's *Financial Times*, they will see what I mean. If cities are to be internationally competitive, it is important that they have the kind of technical infrastructure that such investment represents.

I am sorry if I have not answered your question. The delay may have been foreseen at the time, and I do not know that it was not, but the fact is that the delay caused the bridge not to be built, which caused private sector investment to be significantly less than the planners had hoped.

**Rhona Brankin:** I have some questions about jobs and numbers. As at 31 December 2002, 299 net new jobs had been created at Pacific Quay against a profiled target of 1,564. What is the latest position on the number of jobs? Has the EU now confirmed its acceptance of a reduced job creation target? More generally, what is Scottish Enterprise now doing to promote job creation at Pacific Quay?

**Dr Crawford:** I will address the last of those three questions first. For us, and hopefully for our public sector and private sector partners, Pacific Quay is an incredibly important piece of urban infrastructure. I live in Ayrshire, and the future of north central Ayrshire is directly connected with the success of the site. We are marketing it internationally through Scottish Development International. Scottish Enterprise Glasgow regards Pacific Quay as being one of its key locations for investment in the city, but it is also a regional resource. We have an international marketing campaign for the development, which we intend to run in conjunction with public sector and private sector partners. It is being given significant support by us and by the board of Scottish Enterprise.

The second question was on the European Union's acceptance of the revised job figures. The answer is that the EU has accepted them, but I will ask Mr Carmichael to expand on that.

**Mr Iain Carmichael (Scottish Enterprise):** The negotiation is not formally concluded, but all the indications are that the EU is sympathetic to the renegotiation.

**Rhona Brankin:** What is the latest position on the number of jobs that have been created against the target?

**Mr Carmichael:** Can we come back to you on that?

**Rhona Brankin:** Absolutely.

Generally, how does Scottish Enterprise calculate net new job targets in projects such as Pacific Quay? Are you satisfied that jobs that are simply transferred from elsewhere are excluded from the targets? Are the targets independently audited to ensure that they are robust?

**Mr Woods:** In calculating such things, we take into account whether or not the jobs are additional—in other words, whether they would have been created otherwise—and whether they will displace any other jobs either locally or in Scotland as a whole. "Net jobs" means the net number of jobs at Scotland level, which is what we are most interested in. For projects that involve particularly disadvantaged areas, we might accept the possibility of some displacement over Scotland as a whole; such displacement would be considered to be worth while because of the conditions in the particular disadvantaged area that we were attempting to address.

Those factors are all taken into account when we appraise a project to ascertain whether it will be a sensible investment decision. When the project is being completed, a full-scale evaluation is done of the degree to which the conditions have been met. Additionality and displacement are both taken into account during that evaluation.

As for the question on auditing of targets, that is done through the detailed evaluations that will be carried out once the project is completed.

**Rhona Brankin:** Could I ask—

**The Convener:** Do you have further questions about Pacific Quay, Rhona?

**Rhona Brankin:** No.

**The Convener:** In that case, before I invite Rhona Brankin to ask her next question, I call George Lyon, who has another question about Pacific Quay.

**George Lyon:** I will return to the issues around Finnieston bridge and the delays that have been the main reason for the Pacific Quay project not taking off as was originally envisaged. I take it that Glasgow City Council was a key partner in the project from the beginning. Did the council not warn you early on that there might be delays in seeking and securing agreement on the necessary planning permission?

**Dr Crawford:** I do not wish to avoid the question, but I do not know the answer. The project is my responsibility now, but I was not around at that time. I would be happy to try to establish that, however. I know the personalities who were involved at the time, so I am sure that such a conversation must have occurred between officials from Glasgow City Council, if not



councillors, and officials from Glasgow Development Agency and Scottish Enterprise at national level.

**The Convener:** If you could come back to us on that question, it would be helpful.

**George Lyon:** That bridge seems to have been pretty central to the project.

**Dr Crawford:** Yes, it was.

**Mr Woods:** The potential delays certainly were discussed. There were all sorts of issues about the height of the bridge, navigability underneath it and things like that. I was not directly involved, but I know that the planning process was not straightforward on whether a bridge could be built there: all sorts of issues came into it.

**Dr Crawford:** I know that the folks in Glasgow City Council feel as strongly as we do about the need for the bridge because I meet them a lot. They feel our sense of frustration. However, as you know—probably better than I do—there are processes that must be gone through.

**George Lyon:** I take it that the council has been working hard with you to ensure that the bridge happens.

**Dr Crawford:** Yes.

**Rhona Brankin:** I have some questions about intermediary technology institutes. Scottish Enterprise expects to provide in the region of £450 million of core funding to intermediary technology institutes over the next 12 years. It expected to have the first research commissioned from ITIs by the end of 2003, which has just passed. Was that target achieved? Given the substantial investment in ITIs, how does Scottish Enterprise intend to measure their performance and success?

**Dr Crawford:** The answer to the first question is yes. I can get back to you with the details.

I will be specific in my response. ITIs are a classic example of a high-risk—and, I hope, judiciously analysed—project, and I do not deny that we are entering challenging and innovative territory. We are doing so because Scotland's business research and development investment rate is among the lowest of industrialised countries, and it is falling. There is an absolute correlation between business-based research and development, and productivity and competitiveness in the economy.

In an ideal world, no public agency would be doing what we are doing, because it would be done by the private sector. I am about to rejoin the private sector, so I should be careful what I say. However, the fact is that investment in research and development is not happening in Scotland to anything like the degree that it should. A fascinating *Business Week* article has just been

published on Europe's most innovative small companies—most of which are from Scandinavia and Italy, interestingly enough—which are all distinguished by the fact that they invest heavily in R and D. That is the problem that we are trying to solve.

The specific answer to the question is that the chairman and board of the ITIs, in conjunction with executives from, and the board of, Scottish Enterprise will publish a paper of detailed targets in April. That will include information on the licences that are coming into Scotland from overseas companies and the licences that are being sold from Scotland, by which I mean the ownership of intellectual product by Scottish companies. The information will include specific numbers on spin-outs—of which we said when we launched them that there would be 75 in 10 years—and on start-ups.

The paper will also include information on leverage of private sector investment associated with commercialisation, although I should say that the ITIs are not about commercialisation, which is missed in much of the heat of the discussion. Scotland's universities have an outstanding record on commercialisation; they are among the best in the world. The problem is that businesses are not created on the back of that, which the ITIs are, in part, trying to solve.

The paper will also address leverage of company research and development that is associated with local investment; in other words, our boosting of the amount of spending on research and development by Scottish companies. The ITIs will be able to come alongside businesses to boost research and development. The paper will also contain impact assessments of deals that have been concluded, other benefits to Scotland and spill-over effects and interactions that occur as a consequence of ITI activities. I could go on.

The targets will be published in April. We will have a list of performance targets, which the committee may wish to come back to in due course in order to assess their appropriateness. We have looked across the world, and we think that they are appropriate targets, but I am sure that they can be improved on. They are very specific, and will be published in April.

The board of the ITIs is a private-sector based board. There are four chief executives and the three who are responsible for energy, life sciences and communications technology all come from industry and have strong track records on investment and start-up. In simple terms, we are trying to help along Scottish business-based research and development, therefore there has to be something that allows all the stakeholders to assess whether we are pushing up business-based R and D, because that is what it is about.

I return to what I said at the beginning. Ideally, if the market were operating effectively, research and development would not be a problem for Scotland, but it is a serious problem for this country. Unless we address that, we will have a major business problem that is worse than the one that we are looking at.

Let me say one final thing. We started the project before the events of the past 12 months but, given those events, one year on I have asked myself the question a thousand times whether I would have signed on for it. I cannot give an honest answer to that.

**Robin Harper:** Paragraph 3.28 of the Audit Scotland report states:

“during 2001/02 SEn did not appear to have considered the scope for EU funding in respect of the financing of 13 projects”

that were technically eligible for EU support, and that

“SEn could possibly have secured EU funding of some £8 million for those projects.”

First, why was EU funding for those projects not applied for? Secondly, what is Scottish Enterprise now doing to ensure that it applies for all EU funding to which it may be entitled?

11:15

**Dr Crawford:** We unearthed that information ourselves through an internal audit process. It is important to make that point, because it speaks to the quality of our internal auditors.

There are two or three answers to the question. First, the projects need match funding. Although EU funding might be available, it might not be possible to get the EU funding without the match funding to sit alongside it. Secondly, the amount of effort in getting funding can be so significant that, in some cases, a project might be significantly delayed or not implemented. That is an issue for all of us who are involved. Thirdly, the opportunity might not be lost to Scotland because those funds could be picked up by other agencies in Scotland.

That said, we identified that we needed to improve our processes to ensure that there were strong and robust reasons for not pursuing European funding if and when it was available. We have put in place a set of measures to ensure that the same does not happen in the future. The measures include processes on the pursuit of LEADER structural funds—which I think will become a major problem for this country—and a group that is chaired by something called Scotland Europa, which is led by one of our most experienced executives who also sits on the Executive's structural funds committee.

**Mr Carmichael:** It is worth adding that the purpose of the review to which Robert Crawford referred and which we instigated was to improve our processes. The review's conclusion was not that we had failed to secure £8 million, but that it appeared that we had not considered the issue in full. We have done some retrospective analysis of the matter. As in other areas, the issue was that, although European funding was considered, the decisions not to apply for funding were not adequately documented, such that when we were carrying out the review, it appeared that we had not applied for the funding. There is absolutely no guarantee that we would have secured European funding even if we had applied for it, because we would have had to compete with other agencies in Scotland for the money.

The reasons why the 13 projects did not submit applications cover a whole range of things, including the scope of the projects—perhaps a project was not eligible, but that fact was not properly documented in the file—and the timing, which might have precluded us from managing and implementing the project in the way that we wanted. In cases in which European funding is very small, there is an issue about whether the administrative cost of securing the money outweighs the benefits. There is a range of reasons why we might not have applied for money for those projects, but the key issue in our review was that the reasons were not adequately documented on the files. Therefore, on the face of it, it appeared that we had failed to achieve the money.

**Dr Crawford:** The initial allegation—which, Audit Scotland discovered, was unfounded—was that we had failed to apply for £32 million of European funding for a specific project. That was completely untrue—we applied for the funding and we got the maximum amount available.

**Robin Harper:** I want to follow up one bit of the previous answer. You mentioned that, on some occasions, delays caused by problems in getting European funding can be a factor. Will you expand on that? Is that a general problem or are only certain kinds of projects undermined because the process requires people to go through far too many hoops?

**Dr Crawford:** I would not describe it as a general problem. Clearly, to apply for and secure European money, there is a process that has to be gone through, which takes time. It only becomes a problem if a project needs to be implemented urgently. That urgency might be because there is a partner waiting who wants to get on with the project and who will not wait for the time it would take to get the funding. There might be other reasons. It is not a general problem; however, it is a general concern that we have to follow fairly

onerous administrative processes to secure European funding.

**Dr Crawford:** This comment is going to sound offensive, but I do not mean it to be. At the time, we were accused of not applying for funding for ITIs. However, we have not been able to apply for that funding because the spending so far on the projects concerned has been on buildings, which are not eligible for such funding. We will apply for project ATLAS and ITI funding when it becomes legitimate for us to do so.

It is perfectly clear that any application as far as project ATLAS is concerned is contingent on the European Union making its mind up. In that respect, I failed earlier to mention the important point that the EU has suddenly discovered what we have known from the beginning: it has now said that its decision on project ATLAS is a landmark one—I am getting round to answering the question, but I am taking an elliptical route—and that it has opened a can of worms. Governments across Europe—including, I believe, Northern Ireland—have invested in similar projects and have received funding from the EU and also, in the case of devolved administrations, from their own Governments. The EU has discovered that the Scots have been up to exactly the same thing and that finding against us will raise a wider set of issues.

On the specific question of applying for European funds, we will apply for those funds if and when the EU tells us that it is legitimate to go ahead and do so. However, we will not delay indefinitely, because we are losing serious time and private sector interest. We are, more than anything, proceeding on a case-by-case basis.

I should point out that we undertook the report in question ourselves. Audit Scotland quite properly referred to that in its report. We realised back then—I have to say that it was a couple of years ago—that we needed to get better at applying for funding, so we have taken steps to ensure that we have really good reasons for not going forward with funding applications in future.

**Rhona Brankin:** You said that a dedicated resource has been established to examine e-funding. How will Scottish Enterprise ensure compliance with the new project appraisal and monitoring arrangements?

**Mr Carmichael:** I will keep this short. We have developed a check-list that every project manager will be required to keep on project files and to sign off to assure us that all compliance issues on each project have been addressed. That applies as much to the European issue as it does to a number of other issues in the report.

**The Convener:** Kenny MacAskill has to leave us at this point.

We will move on from major projects to ask about arrangements for the appointment and monitoring of consultants. In 2002-03, consultants and contractors accounted for more than a fifth of total network management and operating expenditure. In that respect, I want to begin with the business transformation project, which is intended to improve Scottish Enterprise's efficiency and effectiveness and to make it the world's leading e-enabled economic development agency. It is also expected to make Scottish Enterprise more customer-focused and make it provide businesses with better access to its services.

What does the business transformation project involve with regard to changes in working practices and the operation of Scottish Enterprise itself? Secondly, how is Scottish Enterprise measuring the effects and benefits of the project and what efficiency improvements have resulted to date?

**Dr Crawford:** The question is extremely important, but I will try to be brief.

We believe that to date we have realised benefits of around £79 million, which is ahead of target, and we forecast that we will have received in the order of £200 million by March 2006. Audit Scotland has rightly decided to examine specifically how we are capturing and measuring those benefits. We are doing that in-house; in fact, the issue was discussed at a recent Scottish Enterprise board meeting.

The £79 million includes head-count savings of £40 million, cost savings of £26 million and productivity of £8 million, and is spread across a range of businesses. As I said, we have introduced a strategic procurement hub. Perhaps the easiest way of putting it is to say that historically—and for good reasons—the 12 or 13 functions that the LECs and the centre each had were spread across Scotland. We have collapsed those functions into one strategic procurement hub, one finance centre, one centre for public relations contracts and one legal system.

Let me illustrate that with some details. We used to have 155 separate websites; we now have 30. We had 147 separate identities; we now have 20. The saving from that alone—trivial though it may seem—was £1.5 million in one year, simply by reducing the diversity of brands.

We are about to introduce a customer relationship management system, which is jargon for what most of us understand to be an electronic database for capturing and sharing information. At the moment, if you were to walk into one local enterprise company with a business proposal, it is not certain that that information would be shared widely across the network. You might go into

another enterprise company and get a different set of advice. The introduction of the customer relationship management system is intended to remedy that deficiency.

That set of physical projects unfortunately involved a reduction of 500 jobs and the reduction of multiple visual identities. It also involved new ways of behaving and levels of detail around what one is supposed to do when someone phones up, and how quickly one responds to an inquiry. That redefinition of core staff values was directly dedicated to improving our customer service activity. We introduced what is known as a balanced scorecard; members may or may not be familiar with that concept. We had a set of hard-core infrastructure projects, including the reduction to one service centre. That has been described, loosely, as centralisation, but I do not believe that that is what it is: it is much more about the creation of value.

We believe that we can demonstrate that we have achieved—against the backdrop of a 500-job reduction in staff numbers—a productivity gain of between 15 and 20 per cent. Members will doubtless want to look in detail at that.

**Mr Carmichael:** Another important measure of the effectiveness of business transformation is our customer satisfaction, which we assess regularly, and employee satisfaction, which we also regularly survey in detail.

**Margaret Jamieson:** I would like to pick up on the 500 posts by which your staff was reduced on the back of the project. Your network's expenditure on consultants more than doubled between 1999 and 2002-03. What are the actual numbers of staff reductions that are directly attributable to the business transformation project? Over what period of time did that group of staff leave your employment?

**Dr Crawford:** To be specific, we reduced by 600 members of staff. You will obviously be aware that, during that process, we also took on 1,200 members of staff in Careers Scotland, so we should exclude them from the calculation. We reduced to about 1,400 Scottish Enterprise members of staff, so the reduction was by about 600. The timescale for that reduction was, I believe, between 12 and 18 months.

**Mr Carmichael:** Yes. It concluded last summer.

**Dr Crawford:** It is difficult to give a specific answer to your question on how much of that reduction was attributable specifically to business transformation. Ultimately, I suppose that we could say it was all attributable to that because we are doing things in different ways, but that is not the whole answer. If you asked me to give an absolute number, I am not sure that I could. By definition, the jobs have gone. At the same time, we have

introduced business transformation, so there is an absolute overlap.

**Mr Carmichael:** I do not have the numbers either, but we could provide them. To expand on Robert Crawford's answer, business transformation led to the establishment of a number of shared services for finance, legal and audit work. It also helped us to develop a new organisational model around the head count of about 1,500. The restructuring into shared services contributed a good number to the total job reduction and the new organisational model made up the rest. I have a number in my head, but I would rather confirm it and come back to you with the information.

**Margaret Jamieson:** I would appreciate that.

Do you have any indication as to whether there is a correlation between the number of individuals that you have lost—the 500 or 600—and the increase in the use of consultants, although sometimes they are not called consultants?

11:30

**Dr Crawford:** I meant to pick up that point in answer to the previous question. The significant increase in spend on consultants is largely associated with the use of consultants in the first two years of the business transformation process. We expect the figure to dip significantly in the future as ownership of the process is taken on by the network. We hoped to have about 100 additional people work on the business transformation process from within the network, but because of the size of the downsizing and, frankly, because we increased the output that we were asking for from staff members, that proved not to be possible and we ended up using more contractors than we had anticipated. The figure will fall off over time, but the benefits will still be realised.

It is important to make it clear, particularly for my successor, that there will never be a time when the organisation as currently structured will not have to use a lot of consultants. That is because of the scale and range of what we do. Audit Scotland identified a couple of figures—which ran into the thousands—for the number of additional staff we could have employed using the money that we spent on consultants. However, as Margaret Jamieson knows well, most consultants carry out specific pieces of work and then move away. Our organisation could not have an overhead of hundreds or perhaps thousands of people who would not be working for nine or 10 months of the year because they would not be required to do so. There is a simple analogy with the private sector: we are trying to outsource everything that is outsourceable. I hate to use jargon, but we are

moving towards core competencies, which are the things that we think we are best at. In that sense, we are following a model that, rightly or wrongly, is identifiable throughout the world.

Earlier, I was asked a pertinent question about the effect of the downsizing on morale. I take no pleasure in the fact that we have 500 or 600 fewer people than we had, but I believe that downsizing was the appropriate thing to do, given what we have been charged to do. I regret any difficulties that individuals may have suffered as a result of the decision, but—hand on heart—I still think that it was the right thing for the organisation. The questions that you would have posed to us might have been far more difficult to answer if we had not taken steps to address the productivity problem. I do not want to sound complacent or indifferent to the anxieties that I may have visited on people as a consequence of the job losses.

**Margaret Jamieson:** You have said that, although you reduced staff numbers, the use of consultants increased significantly. Do you think that you reduced staff numbers over too short a period and did not allow for settling down into the new way?

**Dr Crawford:** I took a lot of advice on the downsizing. I had not done such a thing before, so I am not an expert on it, although I know a lot more now than I did when I started. However, I took a lot of advice from people who are experts. All the advice that they gave me was to do it as quickly as possible because the pain and anxiety that would hang around the organisation would be worse if I delayed than it would be if I acted quickly. Frankly, much of the criticism that I received from members of staff was that we prolonged the period unnecessarily and created anxiety.

**Mr Carmichael:** All the advice that we took was that if we were downsizing, we had to do it quickly. That included advice not only from Scottish Enterprise board members but from a number of local enterprise company chairmen whose organisations had been through some form of transformation. The advice that we received was that we had to move quickly if we were downsizing because the pain would be worse if we delayed.

**Margaret Jamieson:** I return to the use of contractors and consultants. You said that there was a steep increase in the number of contractors and consultants but that that is now beginning to tail off. Is that correct?

**Dr Crawford:** We have hit the peak years in consulting spend and the figure will fall off over time, depending, of course, on what the organisation seeks to do. I should be clear that I do not want to leave any hostages to fortune for Jack Perry. The organisation may seek to do

things that will require more consultants because it does not have the in-house expertise or because some other changes are put in place. If I were to forecast from my present knowledge, I would say that the number of consultants will fall off over time, not least because of the business transformation process. I am saying that with due respect to my successor, who might decide, with the new board, that he needs to do other things.

I know that you are not suggesting this but, as I have said before, consultants are not criminals. They have a living to earn. Scottish Enterprise and the public sector in general need to determine what it is that we are about. That is a serious question. The easiest thing in the world is simply to employ our own members of staff, which avoids the pain and grief of having to sack them at some point, but that might not be the best thing to do from the point of view of the public purse. I am sure that Audit Scotland will want to examine that as well. Audit Scotland did not say that we use consultants inappropriately or use too many of them; it said, correctly, that we need to be a lot better at documenting the projects. We have never argued with Audit Scotland about that.

**Mr Woods:** Earlier, Rhona Brankin asked a question about the checking of the degree to which targets had been met or projects had met their objectives. Almost invariably, we will use outside consultants when we conduct a detailed evaluation of a project or programme. That is quite legitimate given the expertise that they bring to the process as a result of conducting such evaluations every day and given the degree of objectivity and impartiality that they bring. Outside consultants can add value to the process in that way; they are not simply making up the numbers.

**Dr Crawford:** I will mention a situation that came back to haunt me. Because I am an extremely cautious person, we brought in—at a modest cost—a set of consultants to double-check the advice that we were getting from the more expensive consultants who were doing work on business transformation. Lo and behold, because we are a pretty transparent organisation, that popped up in a national newspaper and was used to criticise us. In the midst of the madness of the past 12 months, that was the lowest point.

The use of consultants and contractors must be rigorous and appropriate. I believe that we have tried to make it both. Clearly, we need to get better at maintaining the documentation in that regard, but we are doing that and have shared with you our 19-step process.

That is the normal relationship that anyone would expect to have with their auditors, whether they are in the public or private sector. They tell you that you need to get better at certain things and you say that—hand on heart—you agree.

**Margaret Jamieson:** Is your guidance for staff on the management of consultants better than it was? Have you changed your processes? If, for example, another case like that which you described is picked up by the newspapers, will they still have trouble understanding why the extra auditors were used?

**Mr Carmichael:** We have taken some of the steps that we have said that we would take while other action is on-going. We are having face-to-face meetings with every member of staff to explain the procedures so that they understand them and are aware of the importance of complying with them, which is important because, often, if people do not understand why they are being asked to do something, they do not do it.

Rather than changing our procedures, we are rewriting them. In the main, the procedures are okay but their implementation has not been. We will attempt to make them simpler to understand and they will be made available to every member of staff in the Scottish Enterprise network. Further, we will conduct more monitoring and auditing of the situation. However, if that stage improves, we will have failed, in a sense, because we want to put our guidelines up front in a way that ensures that people can follow them.

**Margaret Jamieson:** I assume that those procedures will be under continual review.

**Mr Carmichael:** We will have regular internal audit reviews. In answer to another question, I referred to a checklist that appears in project files. If project managers complete that checklist—which we are insisting that they do—they will fully comply with all our procedures. That should also make it easy for external or internal auditors to examine every project to determine whether the procedures have been complied with.

**Margaret Jamieson:** I am not a fan of tick boxes.

**Mr Carmichael:** In an ideal world, we would not have to do that, but we are trying to make it easier for people.

**Dr Crawford:** You are right, however: the key issue is mindset. The checklist is not intended to be further bureaucratisation. It is much better if we can change people's mindsets.

**Mr Carmichael:** A number of our members of staff asked us to do something like the checklist to make it easier for them, so we are, to a certain extent, responding to that.

**Margaret Jamieson:** I will ask you about the information that you supplied to your board. Why did senior management never report the information on consultant and contractor spend to the board despite the significant increase? What have you done to remedy that and what is the reporting procedure?

**Dr Crawford:** I do not know why the reporting of that information was discontinued. I believe that the reason was that the board did not find the aggregate information useful at the time; that is my best understanding. The board wanted the detailed information on projects, particularly those with which large cost items were associated. We supplied it with that information and have continued to do that. In other words, rather than give the board the aggregate data, we have tried to disaggregate the specific programmes and projects. I assure you that, whatever feelings I might have, I am extremely good at telling my board members if I think that there is a problem—they will testify to that. We share with them all the information—more than they probably need—on programmes and projects, but Audit Scotland identified the consultant and contractor spend as something that should be reported regularly to the board. It is included in the 19-step action plan and we will report it from now on. The board will still want the programme data from us, and it is right to want that.

**George Lyon:** In some ways, you have already answered the questions that I was going to put to you. Many of the auditors' concerns regarding Scottish Enterprise's appointment and monitoring of consultants appear to be due to poor recording of judgments and decisions, but you have already covered those concerns in your answers to Margaret Jamieson. Are there other areas in Scottish Enterprise's action plan that are being given priority to improve project management procedures apart from the use of consultants? Are there other areas in which you believe there are weaknesses?

**Dr Crawford:** I do not quite understand the question. Do you mean other areas in which we have weaknesses in documentation?

**George Lyon:** Yes. Are there areas, other than in relation to consultants, in which you have weaknesses in the documentation and recording of project management?

**Dr Crawford:** I hope not. I am not being flippant; I am not aware of any and if I was, I guarantee you that I would do something about it. I am staying on in Scotland, and the committee could have me back here in future in some other capacity.

I do not believe that there are any other areas in which there are such weaknesses. We have a really good internal audit. The guy who runs it is very challenging to me personally and I meet him regularly and often. Much of the information that Audit Scotland accessed came from our internal sources. I am not aware of any weaknesses, but I am sure that there are things that we can do better and if anything that we can do better is exposed, we will do it.

People have been asking me about my attitude to coming to the committee. Notwithstanding the fact that I am leaving, I do not regard appearing before the committee as something to fear. We have an honest and transparent governance system; we want to make the organisation work better for the benefit of the people of Scotland, and I therefore regard my monthly meetings with my board as a mechanism for improving my performance and that of my colleagues. If there are things on which we need to improve, our internal audit and Audit Scotland will no doubt make us aware of what to do and we will do it. I am not aware of anything that is inappropriate at present.

**George Lyon:** On the Audit Committee, we tend to hear from organisations about defending the status quo, but we have heard from you about how you have driven through massive change in a public sector organisation. Will you give us a general view of how difficult it has been to deliver what you have delivered over the past four years which, on the evidence that we have had this morning, is an outstanding overhaul of and change to a public body? What are the key lessons that have come out of it?

**Dr Crawford:** Thank you for those kind comments. It has been really difficult because—I have said this twice and say it deliberately again—there are cultures and expectations in the organisation that are appropriate to how the organisation was created; I did not challenge those. Regional delivery gave rise to certain expectations. We have local enterprise company boards that are made up of terribly committed people who are not paid for what they do and who take their roles seriously in their local economies. We said to them, “Look, we need to do things differently.”

The most challenging part was to do with mindset change. Because of the way that we live, we need to do certain things whether we like them or not. I said from the day that I started that the Scottish Parliament had changed utterly the landscape of public-agency accountability. I said that publicly and privately to my colleagues throughout my four years.

That is why we knew that it was inevitable that sooner or later days like these would arrive when we would have to produce more and more data. One by-product of that is that we have become more bureaucratic, as I said earlier. I worry that the past 12 months might have given rise to an increase in risk aversion, which would be a lamentable outcome so I hope that it does not happen. The hardest thing was trying to get both executive and non-executive colleagues to understand why change was fundamentally important. There is no question but that the worst

part has been the past 12 months, which have been less than pleasant. Much of that was totally unnecessary and visited on us for reasons that were not appropriate.

11:45

**Margaret Jamieson:** I would like more information about your strategic procurement hub. What does it cover? Is it all procurement? What level of spending does it cover?

**Mr Carmichael:** It covers all spend above £100,000. The reason for introducing the procurement hub was to bring in better expertise on procurement and to achieve significant savings through not only better processes but better co-ordination of our total expenditure. I will have to confirm that figure.

**Dr Crawford:** I can confirm the figure, because someone from the strategic procurement hub is sitting in the gallery and he just nodded. We brought in people with private sector experience. The gentleman whom I mentioned has experience of a major electronics company with rigorous procurement procedures. We definitely needed to do that and the benefits are already flowing through the organisation.

**The Convener:** Strangely enough, that is the area about which I was going to ask. Margaret Jamieson is obviously telepathic. I want to tease out another aspect of your written response on the strategic procurement hub. You talked about framework agreements and how consultants will work within framework agreements. You said that a few contracts will fall outwith framework agreements. Will you say more about what those agreements are and how some contracts might fall outwith them?

**Mr Carmichael:** We estimated that in the year that is covered by the Audit Scotland report we used 2,500 consultants and contractors and we had 8,000 individual contracts in place. That is clearly not efficient. The idea of the framework agreements was to try to identify the kind of work that we outsource through consultants and contractors and put it out to tender through the *Official Journal of the European Communities*. That would mean that we were Europe-compliant, which would cover some of the criticisms in the report. Getting firms to bid against frameworks for the type of work that they provide will mean that if our staff are procuring services from consultants and contractors in future, they can do so through the framework agreements without having to go back through a full competitive tendering process. That will make us more efficient, because we will be able to procure services much faster and it will also ensure that we are fully Europe-compliant.

I cannot identify contracts that would fall outwith the framework agreements, but there could be areas of work where we need to use consultants or contractors for things that are not covered by the framework agreements. We tried to cover everything that we would procure typically, but we might not have captured everything. The contracts that fall outwith the agreements will have to go through the full procurement process, including the European process for contracts above required levels.

**Robin Harper:** Will we be able to access information through the hub on the sustainability of materials used, or will that have to be accessed separately?

**Dr Crawford:** The honest answer is that I do not know. I would like to get back to you on that if I can.

**Rhona Brankin:** Forgive me if this has been covered, but will you tell us what your thinking is on the format of information that will be provided to the board?

**Dr Crawford:** Is that in relation to consultants and contractors?

**Rhona Brankin:** Yes.

**Dr Crawford:** This is the aggregate spend issue. We will tell the board every month what amount we have spent on consulting and contracting. Given the sheer numbers involved, we will probably highlight the big-ticket items specifically while making available to the board all the line items that make up the aggregate spend. If the board wants to know about something relatively small, they will be able to. The information will be as transparent as Audit Scotland requires it to be.

**The Convener:** We have exhausted our questions for you. Thank you for your candid response to us, which has been most useful. There might be points on which we need clarification. Our normal procedure is that our clerk will go through the *Official Report* of the meeting and pull out anything that we need and we will write to you about that. Similarly, if you feel that you need to volunteer further information, you are free to do so.

**Dr Crawford:** Thank you. As they say in the best gangster movies, you know where I live. I am happy to come back if that is deemed appropriate, although I will be succeeded in due course by Jack Perry. On behalf of my colleagues I thank the committee for its courtesy and for creating the sense of balance that I felt had been missing in much of the commentary over the past 12 months. It has been worth while attending the meeting.

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

11:51

*Meeting suspended until 12:02 and thereafter continued in private until 12:49.*



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