# ENTERPRISE AND LIFELONG LEARNING COMMITTEE

Wednesday 7 February 2001 (*Morning*)

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# CONTENTS

### Wednesday 7 February 2001

	Col.
ТНЕ NEW ECONOMY	1553
LOCAL ECONOMIC FORUMS (NATIONAL GUIDELINES)	1575
DUFFNER REPORT	1583
EDUCATION (GRADUATE ENDOWMENT AND STUDENT SUPPORT) (SCOTLAND) (NO 2) BILL	1591
ITEM IN PRIVATE	1592

# ENTERPRISE AND LIFELONG LEARNING COMMITTEE

5<sup>th</sup> Meeting 2001, Session 1

#### CONVENER

\*Alex Neil (Central Scotland) (SNP)

#### **DEPUTY CONVENER**

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

#### **COMMITTEE MEMBERS**

\*Bill Butler (Glasgow Anniesland) (Lab) Mr Duncan Hamilton (Highlands and Islands) (SNP) Nick Johnston (Mid Scotland and Fife) (Con) \*Marilyn Livingstone (Kirkcaldy) (Lab) \*George Lyon (Argyll and Bute) (LD) \*Mr Kenny MacAskill (Lothians) (SNP) \*Mr Kenneth Macintosh (Eastwood) (Lab) \*Des McNulty (Clydebank and Milngavie) (Lab)

\*Elaine Thomson (Aberdeen North) (Lab)

\*attended

#### THE FOLLOWING ALSO ATTENDED:

David Mundell (South of Scotland) (Con)

#### WITNESS

Ms Wendy Alexander (Minister for Enterprise and Lifelong Learning)

CLERK TO THE COMMITTEE

Simon Watkins

### ASSISTANTCLERK

Linda Orton

LOC ATION Committee Room 1

# **Scottish Parliament**

### Enterprise and Lifelong Learning Committee

Wednesday 7 February 2001

(Morning)

[THE CONVENER opened the meeting at 10:02]

# The New Economy

The Convener (Alex Neil): Let us make a start, as sufficient committee members are here. Bill Butler and Annabel Goldie are on the train from Glasgow and will arrive soon—ScotRail permitting. Des McNulty is also a member of the Transport and the Environment Committee, which is meeting at the same time as this committee, so he will have to pop in and out.

I welcome the Minister for Enterprise and Lifelong Learning and her officials. I welcome David Mundell, who is not a member of the committee, but who has a personal interest in item 1. He informs me that he would also like to stay for item 2; he is welcome to do so. I also welcome lan Ritchie, the committee's special adviser on the new economy.

We have three subjects to cover this morning, minister. The first is our inquiry into the impact of the new economy, the second is the local economic forums, and the third is the Duffner report and the Executive's response to it. We would like you to give a brief introduction to each item as we come to it, after which I shall open the discussion for members' questions and comments.

Because we are covering three subjects that are important and fairly wide-ranging, I ask members to keep their comments focused so that we can address as many of the key issues as possible. If any member starts to become too long-winded, I shall cut him or her off—even if it is the minister.

The Minister for Enterprise and Lifelong Learning (Ms Wendy Alexander): I presume that that comment was directed mainly in my direction, convener.

I have tried to time my introductions to reflect the estimated length of time for which I shall give evidence to the committee on each item. The first introduction will therefore last for five or six minutes, whereas the others will be limited to a couple of minutes. I am delighted to attend the committee for the first time as the Minister for Enterprise and Lifelong Learning. I shall begin by describing where we are on digital Scotland, because that is of interest to the committee and is the subject of Executive and committee inquiries.

Our vision is well established. When the Executive set out on the way forward two years ago, it had two objectives: first, that there should be universal access for people in Scotland to digital technologies by 2005; secondly, that all Government services should be online by 2005. We have begun an audit of the resources that are committed to making those two objectives possible. As the Executive's paper to the committee suggests, £250 million has been committed to the achievement of those two objectives, including £80 million for schools, £50 million for electronic health services, £40 million for the knowledge economy, £30 million for further education, £25 million for local governmentwhich we are looking for local government to match-and about £20 million for digital inclusiontype initiatives.

Having invested in public procurement on such a across hardware, scale-ranging contents. software and capability-the real issue is how we use that sort of purchasing power to enhance our digital capability. As the committee knows, the Executive has reorganised the way in which it handles those matters. It was becoming increasingly unwise to have a knowledge economy task force and separate digital Scotland task force, so we have brought all that activity together through the ministerial committee on digital Scotland, with me leading-within the Cabinet-on the whole area. We have also sought to bring some external expertise into the Executive, and the committee might comment in its report on whether it thinks that that is a useful way in which to proceed in this new and complex area.

I shall say a word about the way in which we are now pursuing a broadband strategy. As members know, we met the telecoms companies in Scotland earlier this week. I note in passing—I know that some of the committee's other witnesses have that there is no universal definition of broadband, although it would be greater than what is currently available in much of Scotland. It is clear that, unless the public sector is in dialogue with the private sector, the ambition that we all share— Scotland being in the premier league of broadband providers—will not be realised.

In considering broadband, we recognise three separate challenges. First, we must secure competitive pricing in Scotland's cities. Secondly, we must ensure access to broadband capability in Scotland's towns. Thirdly, we must enhance capacity and our attractiveness as a location for economic development. We have taken up those three challenges, and I shall bring the committee up to date on our progress.

In dealing with the first problem-low levels of

competition and the resultant high prices in the Scottish market—Scottish Enterprise is assessing our prices and the ways in which we can promote greater telecoms competition. How do we attract more players into the market? That is, essentially, an economic challenge.

I shall return to the second challenge-access in small towns-in a moment. The third challenge concerns our longer-term capacity. Members will know that Scotland is blessed by having broadband cybercapability as far as Wick, although much of that is dark fibre, which is unused. That will not be the case in the long term; a study is currently examining the potential business case for a dedicated spur link to one of the subsea interconnectors. Indeed, there are a number of options there. The intention is to attract a deeper wholesale market, to ensure that we become and remain price-competitive. Scottish Enterprise is taking forward that project and is trying to put together a business case that should be available to us in time for the committee's deliberations.

The second of the three challenges to which I referred concerns demand in towns. Perhaps due to the apparent lack of demand, rather than the reality, the unbundling of the local loop is not being undertaken as quickly as many of us might hope.

Furthermore, conventional ADSL is not the only possible technology solution for the delivery of broadband capability to many smaller towns. The critical insight in ensuring the ubiquity of broadband capability relates to the problem of local access rather than to a deficient backbone structure. In seeking solutions, we are working directly with the commercial players in the market so that they understand the nature of demand for broadband services, partly from the private sector, but particularly from the public sector.

We went ahead with a study on that. I hope that the committee will focus on that in its own response: Scotland is blessed with an institutional structure—which includes the Executive and the enterprise network—that has the potential to place us in a uniquely advantaged position to identify the demand and grow it, through procurement that specifies the need for services that will use broadband capability.

Those services will include general practitioners' surgeries, online libraries and the educational cluster. It is already clear that there is no one killer application that will transform demand, but that there is a wide spread of requirements that can underpin the participation of commercial players. With a view to promoting that, we have undertaken an indicative study of five towns in Scotland. They are; Airdrie, Dingwall, Elgin, Stranraer and Selkirk. The studies revealed that a sizeable demand is likely to emerge over the next three years. Even without the current requirements of the private sector, a data rate of more than 38Mbps has been reached in Selkirk.

That is the nature of the dialogue that we have begun with the telcos, in understanding the hard commercial appraisals that they have to make of future demand to justify future investment in infrastructure. It is a tough time for them; there are falling equity markets and falling prices in their sector. However, there is a big picture behind that, and we are considering with the telcos how to underpin the demand for their services through the Scottish Executive's procurement strategy.

There are areas, including the Highlands and Islands, where, under the increasingly aggressive EU rules in the sector, there are opportunities for a different approach, in which we would go beyond broadband, which is the strategy and challenge that preoccupies us now. There are important issues around improving the skills of the Scottish population with respect to their comfort with new technology. There are also fundamental issues around the development of common standards and protocols for the content of the services. I will leave it at that. I invite members' comments.

**The Convener:** Thank you very much, minister. I found the papers that were supplied by the enterprise and lifelong learning department useful, as I am sure the other members of the committee did.

I would like to start with three questions based on what you have said, Wendy. First, you said that the objective was to have universal access and to get Government online by 2005. What stage are you at in progressing towards that? Are those aims on or behind schedule? What needs to be done to ensure that those aims are achieved?

Secondly, you mentioned—as did the department's papers—the £250 million that is already being spent. Does the £40 million that was announced in another paper that was launched on Monday come on top of the £250 million? I am referring to the allocation for cross-cutting initiatives on the knowledge economy. Is that additional, new money?

My third question is about the strategy for the electronic infrastructure. Most of the evidence that we have received points to a chicken-and-egg question: should strategy be demand-led or supply-led? One of the strategies that was outlined to us was the use of public procurement in ensuring that Scotland can take the lead. Another possibility is to adopt the Irish strategy—which has been adopted in parts of the United States and Scandinavia—in which the public sector would simply underwrite or guarantee a minimum return on private sector investment. Has a strategy been agreed in the Executive about the best way

#### forward?

**Ms Alexander:** Short answers might be difficult. The first and simplest answer is that the £40 million is part of the £250 million—the £250 million is a low estimate, which does not include much of the expenditure in this field by the enterprise networks. We wanted to give a figure that itemised only the Executive's direct expenditure. I think that that figure would rise to more than £300 million if we included the enterprise network's contribution.

We are on target to have all services online by 2005, but within a fairly limited definition. The £250 million was committed in the expectation that ISDN would be the central capability that was used to deliver Government services online. Since the original commitment was made to have all Government services online, it has emerged that we should seek broadband-enabled capability rather than ISDN, so that, for example, there could be videoconferencing as well as e-mail capability.

#### 10:15

On the question of universal access, the crucial issue is the definition of universal access. However, I think that we are undoubtedly on target to achieve universal access, if the uptake of digital television is taken into account. I note in passing that the commitment is not to universal access in everybody's home, but to having a community facility in which access is available. The national grid for learning should create more than 3,000 nodes in communities throughout Scotland. Since the Dunblane tragedy, there have of course been severe restrictions on community access to schools, so a more meaningful number of public access nodes would be something in excess of the 1,000 that already exist. Given that universal access has nominally been achieved, the more meaningful measures and targets over the next two years should relate to usage, skill levels and ubiquity of technology rather than access per se.

We envisage a demand-led strategy. It is an interesting paradox that much of the necessary infrastructure is in place in Scotland. The difficulty is in attracting more wholesalers and telecoms retailers on to that capacity to drive down prices and to drive up competition. There is in many parts of Scotland a significant amount of dark fibre off the backbone. I would be happy to explore the Irish example later, if members wish to pursue it.

**Mr Kenny MacAskill (Lothians) (SNP):** Of the £250 million, how much is being spent on infrastructure?

**Ms Alexander:** We do not have a precise figure for how much is being spent on infrastructure. The packages of resource that we have made available often range over content, software, hardware and infrastructure. **Mr MacAskill:** Surely a fundamental part of a strategy to move towards universal access by 2005 will be the extension of infrastructure, and surely you will have some knowledge of what you have spent and what you propose to spend on infrastructure?

Ms Alexander: We have to clarify what we mean by universal access. Universal access is achievable simply by everybody having a telephone and a modem, and indeed by ISDN. The commitment is not to universal access that is tied down to a particular bandwidth capability. The implication that somehow bandwidth is like motorways, in that we should lay more, has bedevilled the debate. In Singapore, there is broadband capability to every home but the takeup has been 13 per cent. The point of intervention is to drive the use of services rather than for the Government to be a direct provider of infrastructure. That would put us in the position of choosing the appropriate technology. I think that the commercial providers are much better placed to decide where satellite, fixed radio access and so on should be used.

**Mr MacAskill:** Given that money is at the crux of matters here, have you sought to obtain any Barnett formula or other share of the £22 billion worth of third-generation mobile telecoms money? Is any of that money earmarked for use north of the border? If so, how much?

**Ms Alexander:** The receipts for third-generation mobile telecommunications are taken annually. I understand that the total amount that is received by the Exchequer is something less than £1 billion a year, in the context of a total UK budget of about £320 billion. Therefore, the total receipts represent about 0.3 per cent of the Treasury's annual revenue. That money is part of the Treasury's general receipts. We benefit from the Barnett formula and we will receive our fair share of that 0.3 per cent as we do of the other 99.7 per cent.

#### Mr MacAskill: So is that a no?

**Ms Alexander:** You seem to be asking whether there is a bypass for that element of Government revenue; there is not and we have not sought one.

**Mr MacAskill:** We heard from previous witnesses about the emergence of a super league, containing the south of England, Ireland and Sweden. Do you accept that the two objectives of digital Scotland—universal access and all services being online by 2005—will not put us in the super league? If so, what steps do you propose to take to get us into the super league? Given that we will not be there by 2005, in what time scale can we get there?

**Ms Alexander:** Scotland can certainly get into the super league by 2005. I will take the opportunity to address some analogies that are

used. International connectivity has been mentioned. Significantly, no Irish Exchequer funding was needed for the two cable landings in Ireland, which were the result of a business case that was entirely commercially underwritten. That is why for some months-indeed the work was commissioned when I arrived in office-we have been examining whether a comparable proposition is appropriate for Scotland. When the Irish project was launched 18 months ago, the Irish Minister for Public Enterprise said that the Irish Government was looking for sufficient broadband capacity to connect people to ISDN speeds of connectivity. We have achieved that broadly in Scotland and, like the Irish, we want to exceed that. Most of the Irish effort is engaged in creating a fibre backbone within the country, and the Irish Government is trying to work with the private sector on that. I note from recent discussions with the Irish that they have no answer as yet to the problem of making connections to households and businesses-the problem of market demand in towns, which our small-towns study is assessing.

There is a danger in assuming that there is one country that may be permanently further ahead on this issue. The capability that is available in Ireland is inferior to that which is available in many parts of Scotland. The Irish are now upgrading that capability. We are struggling with the same challenge of determining how far off the main trunk one can take capacity into homes and businesses at competitive prices. In the Irish regional programme. procurement which we have discussed with them, bids were invited from commercial players, rather than the Irish Government seeking to do the work itself or specifying the optimal technology.

**Mr MacAskill:** The question was whether you thought that the super league is important, and what action you would take to allow us to enter it and in what time scale. You are saying that we will get into the super league by 2005. What action, in addition to the two objectives of digital Scotland, will you take to put us in the super league? The evidence to date is that what is being done will not put us in the super league. What tangible action will you take, between now and 2005, to get us up there with Ireland, Sweden and the south of England?

**Ms Alexander:** I dispute the proposition that £0.25 billion does not make a huge contribution to securing broadband access in Scotland, if it is procured properly. First, £0.25 billion is already committed and, secondly, we are in discussions with telecoms companies in Scotland. I met them on Monday to discuss how procurement can take place in such a way as to enhance the underwriting of demand for broadband capability. A key insight that came out of Monday's meeting was that telecoms companies said that

procurement that is based on demand from services such as schools, higher education, hospitals and police does not accord with the way in which they put together business cases. They put such cases together based on geography and understanding the totality of demand in that area.

That poses fundamental questions for the Executive about how we take forward procurement; we must give more consideration to the geographic nature of demand than we give to service-by-service demand. We agreed to have a series of meetings with the telecoms operators to ensure that in Scotland we procure in a way that maximises the roll-out of broadband capability. They were very interested in our working with the enterprise network to establish private sector demand in areas.

The broadband strategy faces three problems. First, the price of provision in our major cities is a problem; that is partly because of distance-related tariffs. We are in a fluid situation about the extent to which tariffs become related to the volume of data that are carried rather than to distance. Secondly, there is the issue of towns; I have laid out the strategy on which we have embarked of collaboration with telecoms companies. Thirdly, there is the issue of whether we need a variety of interconnectors. As the committee may be aware, we are in discussion about a proposal for Shetland and the north of Scotland.

A variety of activities are going on; £0.25 billion is already committed and perhaps there will be more as and when that is proved necessary.

I should mention that being a beneficiary of objective 1 funding has given Ireland an ability to leverage European funds; that is only available to Scotland in the Highlands and Islands through the transitional programme. We are working closely with Highlands and Islands Enterprise, as we have done in the past, to consider how the special circumstances of the Highlands and Islands can be addressed.

**George Lyon (Argyll and Bute) (LD):** Minister, you finished on the issue that I want to address. In the major cities the process will be driven by the marketplace. Government intervention is not necessary because there is no market failure. My concern is for rural Scotland, because some of rural Scotland—certainly the south of Scotland—is probably in division 2. The Highlands and Islands is probably in division 1, thanks to substantial Government intervention.

How will the Scottish Executive address the needs of rural Scotland to ensure that it is not left behind at the bottom of the league in the e-commerce revolution?

**Ms Alexander:** That is a real challenge and that is why we are putting a large part of our efforts into

discussions with telecoms companies about small towns, because that is where the leveraging of public demand can make the most difference in securing the roll-out of capacity. That is why some of our more distant towns, such as Dingwall, Selkirk and Stranraer, have been the focus of the five-town strategy, rather than some of our major urban areas.

When we talked to telecoms operators on Monday, they said that the Executive's ability to specify with some precision the nature of demand town-by-town in Scotland would play a major role in their successfully making commercial business cases for investment in those communities. A liaison is emerging between HIE and Scottish Enterprise, which will allow us to specify anticipated private sector demand town by town. We cannot do that for every town in Scotland, but it will help the companies to build a commercial case.

The delivery of ISDN capability to the Highlands and Islands involved £86 million of European objective 1 money. EU state aid interest in this has become much greater as deregulation has rolled out across telecoms, so support for the provision through the transitional of infrastructure programme is £9 million for the period ahead and £4 million for connecting businesses and communities. The key is to develop trials using a variety of technologies. We recently met BT and it introduced us-as, I believe from its evidence, it introduced the committee-to the range of different technologies that it thinks could be used to bring about broadband capability.

#### 10:30

As the committee will know, one of the reservations that people have about ISDN is that it is not always on, so the tariff structure is unattractive to small and medium enterprises. The critical issue is, perhaps, that we should secure always-on capability. The most important commercial intervention for parts of rural Scotland and the Highlands and Islands might be the securing of always-on capability of a slightly lower bandwidth, which can be provided by a range of technology solutions; some pump-priming money is available for that through the transitional programme.

**George Lyon:** When can we expect publication of the independent report that is being done on the issue in the Highlands and Islands? Will you explain in more detail how the Executive is trying to gather together the public sector demand to use it as a lever to pressure commercial companies to put the infrastructure in place? It is a big job to pull together the demand from the health service, education and local government. How will you correlate the information to get a clear picture of the expected public sector demand over the next few years? I suspect that that will be the main driver initially, certainly in rural Scotland, as the public sector is currently the biggest user of information technology. The commercial demand from small companies will run on the back of that, but the public sector is crucial in levering commercial investment into those areas.

**Ms Alexander:** George Lyon's final point about the significance of public sector demand in those communities is critical. I will talk from memory, because I do not have the figures in front of me. In Selkirk, were we to seek to use the £0.25 billion to make use of higher bandwidth capability, the public sector demand would be about 38Mbps and the private sector demand in that community—as estimated by the enterprise network—would be about 7Mbps; so the ratio is about 5:1. That is based on the specificity with which we can say that every primary school, secondary school, GP's surgery, hospital, fire station and police centre will demand this capability.

We aggregated the public sector demand by taking—under the digital Scotland unit—every official who was involved in procurement in this area to an off-site event. We came up with about 25 different types of outlet that are associated with public service delivery and we aggregated that demand.

The most interesting point was that, in a town such as Selkirk, public sector demand was four or five times private sector demand, whereas in Airdrie—the largest of the five towns—there was parity between public and private sector demand. However, Airdrie will, in the next couple of years, experience a very steep increase in private sector demand, which will be associated with the call centre community in that area becoming videoconference-enabled.

The point that George Lyon made about the significance of public sector demand is key. The way in which the Executive has approached that is to bring it all together for the first time under the digital Scotland unit. It is clear that trying to run two tracks of the knowledge economy and e-government is crazy.

E-business and e-government are increasingly part of the same spectrum, which should be reflected in our approach. We have had off-sites with all the officials concerned and with representatives of the enterprise networks. In those discussions, HIE is in a fortuitous position, as it can work with BT on a number of technology trials in various communities. I believe that BT shared information with the committee about the trial that it did recently on Islay—which involved satellite capability—and its intention to trial other technologies, with the aim of finding out whether they could meet the scale of demand in the period ahead.

Our intention is to hold regular forums with the telecoms companies. I am aware that Frank Binnie and other witnesses who have come before the committee have said that there is a role for coordination between telecoms companies in Scotland, and for a forum in which they can talk to Government. We would be interested in discussing further with the committee whether that forum should be a Government-industry forum or a Parliament-industry forum, or whether it could be both. One area in which we would particularly seek the committee's guidance is collaboration between telecoms companies in Scotland, which we want to promote. One of the things that was when we those companies' clear met representatives on Monday was that they had never before been in the same room together. That would be astonishing in industries such as oil and gas, where people are familiar with the well functioning Government-industry body of cooperation.

For too long, the problem in Scotland has been the lack of competition. One of our most difficult challenges is to find a way to secure industry collaboration without reinforcing the monopoly that has for so long been a negative in driving price competition. The insights of the committee and its expert advisers would be of much use to the Executive in seeking to meet that challenge.

**George Lyon:** There was one question that I asked previously that you did not answer, minister.

Ms Alexander: Sorry.

**George Lyon:** When will the report on the Highlands and Islands be published?

**Ms Alexander:** Very shortly. It is anticipated that that will be done by Easter.

**George Lyon:** Will the sites be revealed while the technology is being trialed?

**Ms Alexander:** When we met BT, I pushed its representatives on which of the trials we could make public. They were discussing a number of them being covered by commercial-in-confidence provisions. Let me try to ensure that the report has the optimal degree of transparency that is commensurate with the operator's commercial interests.

**George Lyon:** Your inquiry document discusses the fact that if the Executive or Government intervenes in the marketplace, there are UK and European market regulations to be observed. Could you explain that in more detail? What are the constraints on market intervention by the Scottish Government?

Ms Alexander: State aid regulations are the most fundamental factor for the Highlands and

Islands in that regard. There is a consensus in the industry that projects such as the ISDN programme—and the £86 million associated with that—could not be repeated in objective 1 areas anywhere in the EU. That would be seen as conflicting with the general desire to drive competition in telecoms.

I think it is fair to say that we are doing our utmost to take advantage of the greater opportunities within ex-objective 1 areas and to bring forward proposals that will allow public participation in trialing technology solutions. Objective 2 areas-much of the rest of Scotlandare meant to benefit from a programme dealing with support for SMEs. We have been active in discussions with our own European structural funds group and with local authority economic development professionals, with the aim of assessing the extent to which we can stretch the boundaries on the use of European money in objective 2 areas, which will help with telecoms infrastructure for SMEs and for other players in the market.

**George Lyon:** Could I ask for a point of clarification, minister? You are saying that you could not enter into the same type of partnership as HIE did with BT a few years ago. Are you saying that that sort of leverage and partnership with the public and private sectors working side by side—then to put in the ISDN network—cannot be delivered this time round?

**Ms Alexander:** No, there is scope for cooperation between the public and private sectors. The nature of that partnership's structure and the question of whether it will competitively disadvantage other telecoms players who could potentially be in the same market will be the subject of much greater critical scrutiny than was ever the case four or five years ago. That reflects the fact that BT's monopoly in—

**George Lyon:** Are you saying that more partners would need to be included?

**Ms Alexander:** No, it is more to do with the competition criteria. There needs to be more transparency, in the sense that if we are seen to have a proprietorial relationship with one player that competitively disadvantages other telecoms players, that is more likely to attract the interest of the EU under state aid regulations. That is not to say that we could not come up with collaborative arrangements, but those will clearly be the subject of much greater scrutiny than in the past. We are operating in a more open telecoms market now.

Mr Kenneth Macintosh (Eastwood) (Lab): You have covered most of the areas that I was concerned about, minister, but I have one question about social exclusion. You talked about the geographical difficulties in rural areas, and about how those could be missed if we rely only on the market and commercial development. There will also be much concern about parts of our inner cities.

Some of the evidence that we heard two weeks ago suggested that the biggest barrier to internet access these days was not bandwidth or cabling, but the cost of personal computers and so on. What is Government's role in addressing that problem? How do we ensure that the cabling and technology are available to people in all sectors of our society, whether they live in towns or in the country?

**Ms Alexander:** The opportunity for Scotland is to be not just a digital economy but a digital society. The committee may want to reflect on that in its considerations. The ubiquity of access and the familiarity of the technology to the whole population should form our aspiration. That might be culturally unattractive in North America, where the preoccupation will perhaps always be with a digital economy rather than a digital society. In that regard, Scotland has opportunities because of its size and scale.

Earlier, I mentioned that we hoped to have 3,000 nodes at primary and secondary schools across our community. The whole local enterprise company network is also included, as is the whole of careers Scotland. In a little while, learndirect Scotland will be involved. One challenge before our entire library network, which is not being pursued in England, is how we try to brand all those outlets-every local authority public access point-as places where people can have public access to the internet. One of the challenges for us—I would be interested to hear the committee's guidance on this-is to find out the basic level of access and functionality that those outlets need in order to be seen to be part of the digital Scotland project.

Let us take the example of a particularly intimidating information and communications technology facility, which was designed only, let us say, for participants in the teaching companies scheme. Someone might walk in and be told that they can only get access if they are the recipient of a small firms merit award for research and technology—SMART—or a support for products under research—SPUR—award or something else. That would not accord with the notion of public access. One of our challenges is to find out how to create a basic contract of functionality, which would, I think, cover well in excess of 1,000 outlets across Scotland. We could give those outlets a common branding.

I notice that, in England, the UK Online brand is, essentially, merely the name of a portal. It is totally disassociated from the variety of outlets that might form part of a digital Scotland project. We are interested in the committee's thoughts on that, and I hope that some of the people involved in the digital Scotland project on the social inclusion side of things will have the chance to testify to the committee.

It is also about people's comfort level and familiarity with the technology. We have spent more than £1 million in appointing digital champions in all social inclusion partnership areas. The SIP areas are to have regional champions for digital inclusion. Their job is to ensure that the services that are offered in cybercafes and libraries are being reached by people who might not take advantage of them otherwise.

I am keen for the committee to reflect on that because, however much we are able to persuade commercial companies to underwrite the interconnector for us—at Pacific quay, in Shetland or wherever—there is nobody else whom we can persuade to brand every public sector outlet in Scotland as an access point for digital technologies.

**David Mundell (South of Scotland) (Con):** I would like to cover one or two things that have been spoken about before, just to clarify matters.

In relation to demand creation, can you confirm that you are exploring the widest possible definition of the public sector? That would include local government and the further and higher education sectors, which have extensive networks throughout Scotland. How do you foresee that process being managed locally? Having read Scottish Enterprise's document, I was not sure whether you foresaw that being managed from the Executive's digital Scotland unit or being owned more locally. Earlier in the taking of evidence, when the committee spoke to Scottish Enterprise, there was a lack of clarity about who owned the strategy for infrastructure.

#### 10:45

**Ms Alexander:** I have clarified the fact that there are three issues, and that Scottish Enterprise is assessing prices and competition in large towns and cities. Scottish Enterprise has also taken ownership of addressing whether to put together a business case and whether it is appropriate to do so for an interconnector that would bring in more wholesale players. The lead on the middle challenge—of finding how public sector demand can be used to drive capability to towns throughout Scotland—has been taken by the Executive in the five town studies. Through the digital Scotland unit, we have put in place mechanisms for collaboration across the public sector.

That brings me to your first question. Yes, we

want the widest definition of the public sector. In trying to put together what the nature of demand was in schools, hospitals and businesses, we seconded into the digital Scotland unit Bill Harvey of the Scottish Higher Education Funding Council. What the educational cluster has achieved in broadband capability exceeds most other recent entrants to the market. Robert Craig of the Scottish Library Association has a clear handle on what local authorities are trying to do, and the public libraries network area has come in. We have also brought in Jim Norton of the Institute of Directors, who has a clear understanding of what small and medium enterprises are trying to do. We have tried to bring in expertise to understand the nature of the demand.

Having specified the nature of demand, the next challenge is to procure that demand in a way that most effectively underpins the roll-out by the private sector. That probably requires a different set of secondees from the private sector to assist us. They will be the only ones who can tell us how to structure the procurement process to minimise the risk to us of extending capability. As you know, it is much more difficult to second people from the private sector to the Executive to get involved in procurement issues than to second fellow professionals from the public sector.

The committee might want to comment on the fact that it is not possible to be an intelligent client of telecoms companies unless one understands what risk minimisation means for those businesses. That is possible only if some of the expertise is brought on board, although we recognise the need to avoid compromising the commercial interests of the Executive. We will be required to think of procurement in a way that has not been typical in the public sector, and we will have to seek advice and guidance on the need for a different approach to procurement and the need to be closer to the telecoms companies on this matter. It would be helpful to have the committee's guidance in that matter.

**David Mundell:** Who will undertake that consideration of the procurement?

**Ms Alexander:** We invited the telecoms companies to second some of their staff to think about that issue, but they are nervous about doing so. In the past, if a company was seen to be too close to the procurement process, it was potentially compromised as a bidder to provide those services. However, in principle, the telecoms companies have said that they are willing to work closely with the Executive in thinking about procurement in terms of regional geographies rather than service by service.

**David Mundell:** I have a second question on the wider area of government, e-government, modernising government and the general ethos of

the Scottish Executive. When I visited America in the autumn, I was struck by the fact that people either got the e-revolution or did not. The Scottish Executive, though not any specific individual, does not give me the impression that it always gets it, although there seems to be an ethos in the Executive to drive forward the e-revolution. Although we are presented with the individual elements of modernising government, there is not always the energy and enthusiasm—other than from you, minister—that would help to make allpervasive the project to create a digital society.

**Ms Alexander:** A trip to Blacksburg, Virginia, was undertaken under the aegis of the Scottish Council Foundation, and we have learned from the insight of the people there about the potential for using sophisticated demand and being an intelligent client to drive one to the top of the league in broadband. There is a need to create such an ethos and a common understanding of what we are doing in Scotland, which has been more influential in shaping the Executive's thinking than the report that presents analysis of the detail of the lrish or Swedish experiences. The Canadian and Virginian experiences have shaped our thinking.

We look to the committee for support. There must be more of a just-do-it ethos. In the past, large-scale public sector procurement programmes have been disastrous. We are not saying that we will haul everything into the digital Scotland unit and then get it all right and procure on behalf of the whole of Scotland. That sort of approach to public procurement has been a disaster in the past. We need to try to preserve a ahead with the between going balance procurement and being strategic about the way in which we do that, so that we will become an ever more intelligent client.

Some of us are trying incredibly hard to resonate the fact that this matters more than anything else, and that it is at the top of our agenda. It is about growing expertise and skills sets internally and having a much more fluid boundary with people who are familiar with this area. The current commercial salaries that people with the relevant expertise command run to six-plus figures. It is a challenge to get those people to leave their work in the commercial companies to come and be badly paid by the Executive to help us to think about the way in which we should wire up Scotland. The challenge is for the Executive to tap into the expertise and enthusiasm in Scotland without expecting to get all the answers. It would be helpful to have the committee's advice on pushing the boundaries on that.

**David Mundell:** In an earlier comment, you touched on the question of how you can enter into an engagement with all the people in Scotland,

whether groups in business or elsewhere, who want to take this forward. One of their criticisms is that they find it difficult to engage with the Executive. There are lots of groups, such as ScotlandIS, and individuals who want to engage in the process, but they find the current process difficult to engage in.

**Ms Alexander:** I look to the committee to say some hard things on that point, not to the Executive but to the commercial sector in Scotland.

The Convener: And to the Executive as well.

**Ms Alexander:** Indeed. However, berating the Executive will not encourage skills sets to grow internally, nor will it get the work done. I want this year to stop being the year of visions and to start being the year of actions.

The fact that chief executives may turn up once a quarter to a digital Scotland committee meeting and sound off does not grow capability or skills sets in procurement, in aggregating demand on a zonal basis or in engaging wholesalers on their relationship with the retail players in Scotland. That does not even get us to the position that Ireland is in, where people understand the minutiae of who is underwriting what. None of that happens as a result of people turning up once a guarter and then putting on their curriculum vitae that they sit on the digital Scotland task force. We will make progress only if expert staff come and work on the inside, saying, "We commit to making this happen because we understand that if we seed our really good staff now, Scotland will be the most intelligent client in Britain."

If we can base our system on a backbone that is more advanced than systems elsewhere in Europe are, we might be able to leapfrog. That requires commitment from the commercial sector, which should be saying, "I wish that they would batter down my door saying, 'Let me give you someone who lets you be an intelligent consumer of the £250 million that will flow through your door'".

It is an incredibly tall order to expect civil servants who have little experience in such areas to design a contract process that specifies a level of service from which higher bandwidth services will follow, rather than just ISDN capability. However, designing such a process would be easy for many people in the market. We must convince those people not only that £250 million is available already, but that that money could underwrite the growth in demand. Obviously, much of that £250 million is committed to software services and content, but the opportunity exists for the market to get on board in a fundamentally different way from how it has participated in the past.

We have begun to do our bit, by pulling demand together and by specifying what is required. This is

the right moment in time for me to say that the leapfrogging depends not on us or on our willingness to engage, but on the market's willingness to rise to the challenge. I make that plea for Scotland on behalf of the Parliament, not on behalf of the Executive, which has its own challenges. The procedure for seconding people is phenomenally difficult.

Elaine Thomson (Aberdeen North) (Lab): We have covered many issues this morning. You spoke about how the growth in productivity has accelerated, particularly in the United States, where gross domestic product has risen over the past 10 years. The gap in productivity between the United States and Scotland is widening. Are we doing enough to increase productivity in Scotland and the UK?

David Mundell's point has been made to me by many organisations: raising awareness of what eeconomy means is one of the most useful things that Government can do for companies that are not dotcom firms or contenders in the e-revolution. Are we doing enough to explain to old, traditional companies what the e-revolution will mean to them in relation to both staying in business and being globally competitive?

So far this morning, we have not touched on how we should develop the necessary skills in Scotland. We should consider how to develop the skills of people who move into the work force from education and the skills set that is available to the Scottish Executive and to the economy as a whole. Recently, I visited Electronic Scotland—

**The Convener:** Elaine, I am sorry, but can you come to the point?

#### 11:00

**Elaine Thomson:** Electronic Scotland seems to be clear that the skills gap is short term. Lots of good activities are going on, with colleges and universities developing courses, but what can we do to tackle that gap?

Another point that has been raised in evidence to the inquiry relates to the curriculum of our universities. Is it the right kind of curriculum to produce the kind of graduates that we really need—people with the right skills for today's economy?

I am sorry-that was a long, waffly question.

Ms Alexander: How am I going to keep my reply short?

The Convener: Could you keep it as short as possible?

**Ms Alexander:** I could come back five times in the next year.

The second committee paper—EL/01/05/02—is fascinating if you get the time to read it. It proves that Scotland has not yet really had the opportunity to take advantage of the productivity spurt that we see in the United States. It suggests that that will come, but that, first, an awful lot of Scotland has to stop using its personal computer as a sophisticated word processor and start using it as an instrument for re-engineering its business.

Part of the key to helping to make that happen is the £0.5 billion that we spend through Scottish Enterprise and HIE. The committee can send an important signal. It can ask whether it is right for us to say that we have spent two decades dealing with the challenges of transition, that we are now broadly ready to face the challenges of the future, and that we are prepared to allow the £0.5 billion that has been committed to the enterprise networks not to be focused on issues of transition but on issues of connectivity as the key to productivity and growth in Scotland in the future. A signal to that effect in the context of the committee's report would be very important.

I know that, like me, the committee comes under pressure every time any transitional issue emerges to drag the resources of the enterprise networks back to deal with it, which simply prevents the networks from getting on to the future agenda or from growing, in-house, the skills that they need to tackle that agenda.

I will say two things on skills. As part of the knowledge economy package, we announced the need for every graduate leaving Scottish universities-irrespective of their discipline, be it Roman history, archaeology or particle physicsto he completely comfortable with new technologies. That should be a fundamental part of any school or university curriculum. We now have good access to ICT in our schools and universities, but access has not been good enough in our further education colleges, which is why they have been the special beneficiaries of quality ICT equipment.

We can obviously come back to the skills challenge many times, but the fact that learndirect Scotland is a web-enabled broker of all the learning opportunities in Scotland sends an important signal about the significance of webenabled education. I rarely have an engagement these days at which somebody does not stand up and say that they are involved in online learning, are trying to grow a market and want to be in the lead. The committee may want to consider those matters in future.

**The Convener:** I welcome the fact that we are going to have a science strategy in Scotland. We have tended to focus on infrastructure this morning, but the new economy goes wider than that—especially in relation to science and technology. Do you agree that, in the context of what you are trying to achieve, the funding proposals put forward by the Scottish Higher Education Funding Council are sheer lunacy? Should SHEFC be sent hame to think again?

**Ms Alexander:** Do we need a science strategy? Yes, we do—and one is in progress. Partly to avoid confusion, I did not include in the £0.25 billion the significant additional moneys that are going into science. The Executive feels that we should return to that issue and to the opportunities that the scale of uplift that we are hoping for will bring.

You asked about SHEFC. I met the Association of University Teachers a couple of days ago and I am meeting representatives of the Scottish universities immediately after this meeting. I do not know whether the proposals made by SHEFC are right or wrong. Some inappropriate analogies have been made, comparing SHEFC with the Scottish Qualifications Authority. The SQA is an accreditation body; SHEFC is much more the body that thinks about how we fund the whole of higher education in Scotland. In that sense, SHEFC is more analogous, I think, to Scottish Enterprise or to the Scottish Arts Council, which disburses grants to arts bodies.

It is important, while no definitive decisions have been made, to allow an open discussion about how many areas should be funded. The general consensus seems to be that there should be fewer than 20; there does not seem to be unanimity that there should be six. However, as minister, I am minded to let that discussion run and then come to a view. Our arm's-length agencies, which are engaging with these difficult issues, should be given the time to think them through. Despite the many pressures in endless articles in The Herald and The Scotsman, I feel that, if the agencies do not yet have proposals on the table, we have to allow them some thinking space. I have said to them that I think that they need to have a wider discussion with the Scottish universities about the proposals. It would be wrong for ministers to say, "You are wrong and the answer is X." Our obligation is to ensure a wider discussion within the Scottish university community.

**The Convener:** We have many issues to pursue, but I would like to finish with a quick question from Annabel Goldie—and a quick answer.

Miss Annabel Goldie (West of Scotland) (Con): I have to declare an interest as a member of the court of the University of Strathclyde.

I have been made aware of profound concerns about the SHEFC proposals and I am aware of the minister's forthcoming meetings. Does the minister accept that Scotland—especially postdevolution—is a small village and that a dangerous lacuna is emerging between the desire, which I believe to be genuine and sincere, on the part of the Scottish Executive to have a strategic vision of the economy and the provision of higher education to match that desire? I am concerned about the lacuna: SHEFC—which is an extremely powerful body—is solely responsible for the dissemination of core funding for our higher education institutions. Does the minister accept that that is an area of concern?

Ms Alexander: Yes. SHEFC needs to think again, although I do not think that ministers need to tell it the answer. We have said that we need to try to reach more of a consensus than exists at present. Annabel Goldie makes a fundamental and appropriate point. As the committee knows, I have had the chance to discuss it with the convener. SHEFC was established in 1992, when it was universally accepted that a Scottish universities funding council was needed. The establishment of the Parliament raises interesting questions on where, in the strategic context that Annabel Goldie described, the boundary of parliamentary and Executive responsibility lies, and on where the appropriate boundary of SHEFC responsibility lies.

SHEFC never had a quinquennial review, which all quangos are meant to have. Because what would have been its guinguennial review coincided with the establishment of the Scottish Further Education Funding Council, that review was delayed. I intend to launch a review later in the spring-which will therefore be after eight years instead of five. That should give all parties-and this committee too, I hope-an opportunity to reflect on where the proper boundary between ministerial discretion and SHEFC discretion lies. I hope that we will come to a view on that fundamental question in the next year. I look forward to the committee's input. In the meantime, we have asked SHEFC to consider the anxieties that its proposals have caused but, as I said, we have not tried to tell it the answers.

**The Convener:** George Lyon has a quick final question on the reports.

**George Lyon:** I wanted to clarify when this committee will get to see the reports. You told us when the HIE report would be available. Scottish Enterprise is conducting a leased line provision and tariff report. When can we see that? A third report was an investigation by Scottish Enterprise into the—

Ms Alexander: Local loop unbundling?

**George Lyon:** Into the international interconnector. We need those reports.

The Convener: The point is that it would be helpful for us to have those reports before we

come to our conclusions.

**Ms Alexander:** I am anxious to get them to you before you conclude your studies. Obviously, some things are out of my hands, but we have received undertakings that those reports will be available by Easter—with the possible exception of the one on local loop unbundling. On that one, we are living in a changing world. However, the HIE report and the ones on competitiveness in cities and the interconnector should be available by Easter.

It would also be helpful if we sent the committee a full report of our discussions with the telecoms companies and their follow-up on their willingness to provide some of the specialist expertise that I was talking to David Mundell about. We can certainly let you have that within the next couple of weeks.

I have timetabled the next meeting with the telecoms companies for the beginning of May, which should allow us to have received the committee's report and therefore to have your view on how the relationship between Parliament telecoms and Government telecoms should go forward.

**The Convener:** Do you want time for a coffee before we move to the next subject? I believe that you have to change officials anyway.

**Ms Alexander:** Yes. I am happy to have a glass of water, but we can take a break for a minute or two.

11:10

Meeting adjourned.

11:14 On resuming—

# Local Economic Forums (National Guidelines)

**The Convener:** Given the time, I ask Wendy Alexander to start with her introduction, please.

**Ms Alexander:** I will be quick. As local economic forums were the committee's idea, not mine, I will not go over the case for them. I will just share with you a flavour of the responses that we received and invite you to offer us guidance on the few outstanding issues.

More than 100 responses to the draft guidelines have been submitted. I am told that more than a quarter came from the business community. We do not usually have such a high response rate from it, so that is encouraging. We slightly toughened up our previous position by saying that we should be more prescriptive about the core membership and that we should set the boundaries for local forums at local enterprise company level. We must recognise that time is money for the business community and that we must therefore make for smarter business engagement. We cannot afford the luxury of large talking shops, so membership should be small and tight, with preferably no more than 10 members. Clear tasks should be set, the first of which should relate to the streamlining of business support services.

Those who responded basically endorsed the proposed approach, which they said was realistic and achievable. On balance, they wanted us not to be too prescriptive about the degree of local flexibility. There is a desire for some local flexibility, but people also think that there is a role for the proposed ministerial task force and for Audit Scotland.

There is consensus that the forums should have small, tight memberships; even so, a large number of organisations said that they wanted to have members on the forum. We asked whether organisations should have executive or nonexecutive members. People mostly said that, as long as we chose the right individual who spoke for their organisation, they were unperturbed about whether the member was executive or nonexecutive.

Setting business support services as the first priority task was generally welcomed. However, there was a desire for forums to consider skills, trade and tourism once we get the careers Scotland structure sorted out. The interface with community planning attracted a fair amount of comment from local authorities. We look to the committee for guidance on that. The Convention of Scottish Local Authorities and several local authorities think that LEFs should be nested in the community planning framework and that community planning should retain the primary responsibility for local authority economic strategy. It is unsurprising that other respondents said that greater clarity was needed, but that LEFs should own the economic component of the community plan, given the role of the enterprise networks and of LECs. Some guidance on that would help, as views differ.

On engagement with the business community, there was consensus that chambers of commerce have broad representation and that, typically, one person from every area's chamber of commerce should be a member. That proposal was broadly accepted, but people asked for some local flexibility too.

If local economic forums are to have credibility, they must be seen to be business led. Otherwise, business organisations will consider them part of the problem, not the solution. Any further advice that the committee wants to offer on ensuring that business organisations feel that they have a central role would be welcome.

The principle of monitoring and evaluation was generally welcomed, as was the idea that we should start by mapping what works.

There was broad support for integrating tourism in the forums, but there was concern about the practicalities of the relationship with area tourist boards. The committee might want to comment on that issue now, or might want to return to ATBs, which, as members know, feature prominently in the strategic review of tourism.

We continue to stick to the timetable. Depending on receipt of the committee's views, we plan to issue final guidelines by the end of this month. We will set up a central resource for the forums in the Executive, to be shared with the enterprise network. We will hold the first meeting of the ministerial task force towards the end of March, and have the first seminar for the forums in April, which will focus on how they set targets. If we stick to the timetable, we will see the first output of the mapping exercise of what works for each geographical area and how forums intend to coordinate and streamline by the end of October.

**Miss Goldie:** I was recently introduced to the concept of the camelephantelopelican, which was a legendary cross of a camel, an elephant, an antelope and a pelican. I am a little worried that the forums may end up like that hybrid. The committee welcomes the fact that many of the conclusions in its report have been adopted, but

there are some doubts.

I will dwell on the business aspect. The evidence that the committee took strongly suggested that there was much scepticism among local businesses. My clear impression is that, if we are serious about trying to drive local business development strategies, with the accompanying fruits for local communities, the forums must be credible. More important, there must be a reason that will persuade business—particularly busy people in business—to have anything to do with the forum.

I was pleased that the draft national guidelines acknowledged that businesses are the key drivers of wealth creation. However, I question whether we are getting the membership right. Are we in danger of getting it seriously wrong? I was interested in your comments about the responses that have been received, which seemed to some extent to reflect my concern. The business component in the forum will have to be beefed up. If that does not happen, there is a fear that businesses will vote with their feet and walk away from the forums.

Ms Alexander: At the risk of offending the committee, I must say that one of the dilemmas that it left me with when I inherited my portfolio was that there was something of a disconnection between what you said about frustration on the about duplication ground and vour recommendations that local forums should be established with a membership that could be in excess of 30 organisations. There is no doubt that it is a step forward to establish small focused forums that do not have budgets, must prove their worth in the first year and are nationally evaluated. I would be more than happy to receive further suggestions about taking forums to the next stage, to make businesses feel that they could interface with the structure with some ease. There is no doubt that we have moved the issue to the next level. We would be happy to have further observations on doing that.

However, it is not possible to change the core membership more. It includes two representatives from the LEC, two from the local authority, two from the business community, one from the learning industry and one other. The prospect of 50 per cent for business and 50 per cent for all other organisations is not on the table. The broad membership has been decided on. It is now important to decide on structures that allow the business community to influence the forum's deliberations quickly and easily.

The other critical step is not to give the forums a statutory status or budget. We must require them to prove their worth in the next 18 months. That is a critical component of the way forward.

The Convener: I will follow up that question then hand over to George Lyon. When the forums were envisaged, 10 or 12 people were expected to be members. However, if one person represents the further education sector, they represent the whole education sector, not their institution. It might be an idea to build into the guidelines a requirement for the board of 10 or 12, or whatever the number is, to report to the wider bodies. For example, all the FE institutions, all the higher education institutions and all representative organisations from the business community could meet every three or six months. That would give the LEF a duty to report and consult locally and it would prevent the forum from becoming a dialogue between the 10 or 12 members and the ministerial task force.

**George Lyon:** Annabel Goldie talked about membership. That is not the issue. As I recall, the discussions were not necessarily about who sits on the forums. We were offered more radical options, but we saw LEFs as a middle way. The other options are not ruled out—we might need to come back to them.

We opted for LEFs as the way to try to get the appropriate people round the table to discuss who does what, how they might deliver the strategy that is agreed at community planning level, which organisations' staff are doing virtually the same thing and to agree on how to strip out the duplication and overlap. The hope is that if two organisations are not competing against each other—which is a complete waste of public money—we will deliver more action on the ground.

There are some key issues here. First, it is important that the organisations involved do not turn up at the table and defend their interests. If that is their attitude, the LEFs will fail on day one. Secondly, we hope that they will have a constructive discussion and identify action to strip out the overlaps. Thirdly, it is important that they agree on action to deliver the strategy. The key issue for me is how we monitor whether the LEFs work. We have not ruled out going for more radical action if they fail. We need to indicate that there is a time scale here and that there will be proper evaluation of what is done at the local economic forums. If they fail, we will not allow them to continue; we will take action to ensure that we have a streamlined, effective service that delivers action on the ground for the community.

**Ms** Alexander: I agree whole-heartedly. Emerging from the consultation is a sense that local authorities have greater strength in those aspects of economic development that are closer to the inclusion and community development agenda, whereas the LECs have more specialism in the areas of direct support services to business. That is not true throughout Scotland, but a general pattern is emerging from the responses that we have received so far. There are different areas of expertise—it is a matter for the committee whether we want to write that clarity in or simply to say, "Assess independently what works in your area and we will see where you are in a year's time."

**George Lyon:** How will the Executive scrutinise and judge whether the LEFs are working? What action do you propose to take if they are not working? If the executives turn up at the table, defend the status quo and nothing changes, it would be a complete and utter waste of time. How will you monitor that and what action will the Scottish Government take to address it?

**Ms Alexander:** We have said that we will set up a national forum to monitor what the LEFs are doing. However—and this is hard for the committee—LEFs do not have a statutory basis and they do not have a budget, so ultimately the only sanction is name and shame. A LEF does not have corporate status, it does not have a budget and it does not have any authority over all the various statutory players, be they local authorities, LECs, or higher education institutions. In the guidelines, we have gone as far as we can in the absence of any budget or statutory framework, which is to say, "We will require you to report within a year on whether you have managed to get rid of the clutter in your area."

The naming and shaming part of the exercise of which the committee is a part—is where we say, "Here are the 22 LEFs in Scotland. These are the ones that have risen to the challenge and these are the ones that have not." Audit Scotland then has the opportunity to consider what has been achieved. That is the point at which the committee—a year from now, having considered the 13 plans that are coming in—can decide whether to move the organisations to a more formal basis, which would allow action on those that did not rise to the challenge.

The Executive has endorsed the committee's recommendation. Until the organisations have proved their worth and utility, it would be wrong to go either to a statutory basis or to an independent budget. They would have been encroaching on functions of existing bodies, which would have required legislation and delayed us for another two years. The case still has to be made that they can rise to the challenge that we are collectively setting them.

**George Lyon:** So what you are saying is that we are giving them a chance, on a voluntary basis, to demonstrate that they can sort out the clutter and the overlap themselves?

**Ms Alexander:** There can be no form of sanction unless there is a budget and a statutory responsibility. The responses show that the right

to sanction a body depends upon its having a corporate existence, a budget and a responsibility. We are not in a position to sanction LEFs when those statutory responsibilities remain with LECs, local authorities, higher and further education institutions and other players. That is one of the dilemmas that lie ahead.

#### 11:30

Marilyn Livingstone (Kirkcaldy) (Lab): I agree with George Lyon. The issue for us is partnership and whether the organisations will work together so that they can provide the best business support, area by area. The issue is indeed whether they will work together. I am glad to hear what the minister says about what will happen if they do not.

I have a couple of questions on representation. How will the so-called social economy and the trade unions be able to contribute? We talk a lot about MSPs getting more involved in their local economy. Do you see any role for this committee or for local MSPs?

**Ms Alexander:** We have said that we consider that participation by the Enterprise and Lifelong Learning Committee on the national forums would be helpful. That could perhaps involve a member on the task force for the Scottish Enterprise area and a member on the task force for the Highlands and Islands Enterprise area.

On the wider issue of whether there is a role for MSPs on local economic forums, "Over to you" is the answer. Alex Neil was previously a member of the former Social Inclusion, Housing and Voluntary Sector Committee, at which I testified, and we had lengthy discussions about whether it was appropriate for MSPs to sit on social inclusion partnership boards and in what circumstances they could do so. Those are intractable issues, but the Parliament is better placed than the Executive to judge them, at least in the first instance. I will be interested in what it says.

Perhaps I may take Renfrewshire, which is in Annabel Goldie's and my area, as an example. If we said that all the constituency MSPs and all the list MSPs for the area should have places as of right when only 10 were available, I do not imagine that we would increase the area's business community's optimism that local economic forums will deliver. I take Marilyn Livingstone's point; a number of people want to contribute and advice on that would be welcome.

You will know that when we published "A Smart, Successful Scotland: Ambitions for the Enterprise Networks", we indicated that Jackie Baillie and I intend to make a statement shortly on how we see the social economy agenda being driven forward in Scotland, partly because we want to pick up on the work of the UK social economy investment task force, which was published in draft form as part of the pre-budget report, and partly because everybody involved in this area concedes that there is a rather messy boundary between Scottish Enterprise and Scottish Homes about who does what. We would benefit from clarity on the role of both organisations—Jackie and I are awaiting an opportunity to talk with one voice on the way forward in that area.

Marilyn Livingstone: You mentioned the trade unions.

**Ms Alexander:** There are a couple of places that we have left unfilled—the trade unions may wish to take them. We are saying to the trade unions, "Please see careers Scotland as the focus of your activity. Your involvement in that area will provide the link to lifelong learning." There will be a statutory place for local authorities on the local boards of careers Scotland. For the trade unions, that is optional, depending on the geography and whether there is an appropriate participant.

**David Mundell:** As I am not a member of the committee, I hope that I can be a bit more cynical about the process. At the moment, I am not convinced that the forums will not just be additional clutter, rather than a solution to the problem. We must wait and see.

However, I make a plea for flexibility in relation to the guidelines. I am already concerned that there are some people in the organisations involved who see guidelines as prescriptive and who think that, if guidelines are issued, they must be followed to the letter. The evidence that the committee has taken suggests that there are some very different situations across Scotland. In the south of Scotland, there are some council and LEC areas that have coterminous organisations and some that do not. I therefore make a plea for flexibility rather than prescription.

Ms Alexander: The candid answer is probably that I am not sure that I completely agree. The way I read the mood of the committee was that there is a desire to make it possible for the business community to participate, which would some prescription on boundaries, mean membership and work plans. That would mean not having to spend five years debating what a local framework for economic development might look like in every community in Scotland. Instead, we would ask organisations to sort out the streamlining of their business support services with a fixed horizon of a year. There should be flexibility within a defined set of parameters, which are those that we have issued.

**Mr Macintosh:** Who runs the forums? Will they be run by LECs or by local authorities? Who will send out the letters and where will they meet?

**Ms Alexander:** We suggested that the chair could rotate, but we have also suggested that local economic forums should be serviced by LECs, given their lead responsibility for local economic development. However, there could be a collaborative secretariat. Indeed, the secretariat for the national economic forum is intended to comprise the Executive, COSLA and the enterprise networks.

### **Duffner Report**

**The Convener:** We now move to the Duffner report on the careers service review. I invite you to make a quick introduction, minister.

**Ms Alexander:** I suggest that I forgo any introduction, as everybody is familiar with the issue. In view of the time that is available, I shall simply invite questions from members.

**Marilyn Livingstone:** I welcome the key principles of the Duffner report and the coherence and synergy that will be gained as a result. A knowledge guidance service makes a lot of sense for the public and I believe that that is the way forward. We have been working in reporter groups and taking evidence on the Duffner report as part of our inquiry.

I would like to ask you about three of the issues that have been raised. First, people are keen to see standards and targets set at national level. That is welcomed, but there is a call for flexibility at local level to allow good past practice to continue to operate. What is your view on that?

My second question is about impartiality. If there is an alignment with the Scottish Enterprise network, how will you ensure that careers Scotland is impartial? If, for example, Scottish Enterprise has targets to meet on its skillseekers programme or on modern apprenticeships, how can we be sure that no influence will be brought to bear on the careers service to channel people into those programmes?

Thirdly, some careers companies raise funding themselves by looking at partnership contracts, such as new deal contracts. If they are not legal entities, how will they be able to continue to work in that way?

**Ms Alexander:** On balancing national standards and flexibility, we are trying to have the best of both worlds. At the moment, there are no national standards and no national service guarantees. A head teacher in any Scottish school therefore has no idea of what they can expect from the careers officer in their school. That is the case for national standards. On the other hand, because there is a need for flexibility, we have said that there should be a local careers Scotland board in every area to provide the function that you have described to augment the service. A baseline national standard will be set by the national board, but a local board can act flexibly.

Impartiality is very important. Duffner has endorsed the principle of impartiality and we have committed ourselves wholeheartedly to that. At the moment, it is 50:50 LECs and local authorities, so it is 50:50 employers and school education interests. We hope that, by changing the composition of the careers Scotland boards to a third schools, a third the learning industry and a third employers, we will be able to tilt the balance so that the employability of the individual, rather than job placement, is at the centre. Equipping the individual for tomorrow's labour market should predominate, rather than the question, "Which job are we going to put you in?"

You asked whether the LEC people could work in training and whether they might overly influence the people in careers Scotland. Of course there must be dialogue about the needs of the local labour market, but we have not given the LEC a hierarchical relationship over careers Scotland. It is a completely parallel relationship, with the accountability of the careers Scotland staff being to their local board and ultimately to the national standards that have been set at the centre, rather than a horizontal responsibility to the local LEC.

We must ensure that the vehicles are capable of attracting private sector funding, as they do at the moment. Whatever the nature of the financial vehicles that are necessary to make that possible, we will try to achieve that. If we waited to do that with legislation, we could be waiting for years. Intensive discussion is going on with the lawyers about the corporate structure of careers Scotland at local level. The LECs are wholly owned subsidiaries, but there will be a lengthy discussion about the precise corporate structure of the local organisations, so that we are not required to amend the Enterprise and New Towns (Scotland) Act 1990, which created Scottish Enterprise. To avoid going down the legislative route, we must devise a corporate structure that the lawyers say does not require legislation. However, should they be able to continue to attract funding from the private sector, there should be partnership and corporate structures to facilitate that.

**Marilyn Livingstone:** After 8 March, what steps are being taken at national and local level to push that forward? In some areas, four organisations will be coming together. If there is any change, it must be handled sensitively and quickly. That is what the staff want. What has been done so far to develop those plans at national and local levels?

**Ms Alexander:** As soon as we respond to the consultation that is going on at the moment, which we hope to do by the end of March so that people have 12 months' planning time, we will immediately put in place three structures. The first will be the joint venture board in shadow form, which will begin to think through issues such as how to allocate money at national level, how to set standards and what the benchmarks should be. We will also have a joint working group, which would be chaired by the Executive, as ministers will remain accountable for the delivery of the

service. We will also immediately set up implementation teams in Scottish Enterprise and Highlands and Islands Enterprise, hopefully with a number of secondments from all the organisations affected. Those teams will be at the heart of the 12-month planning phase, with a vesting date in April 2002.

Mr Macintosh: I understand that the local career boards will be parallel institutions that have a horizontal relationship with the LECs. Will the central directorate or executive of careers Scotland be subservient to Scottish Enterprise and Highlands and Islands Enterprise, or will it be a parallel institution? I understand from the structure plans that you have shown us that everyone has to be an employee of Scottish Enterprise and Highlands and Islands Enterprise. Who would control the budget for careers Scotland? Would the money come to Scottish Enterprise, which would take a decision about how much to give to careers Scotland? Would it go straight to careers Scotland? Would it go to Scottish Enterprise as ring-fenced income?

#### 11:45

**Ms Alexander:** We have said that, for the foreseeable future, we will ring-fence the money for careers Scotland; therefore, the 25 per cent increase in the budget over the next three years is guaranteed to careers Scotland. One of the first tasks of the shadow advisory joint venture board will be to consider how the money should be distributed. Although careers Scotland has guaranteed funding streams, some of the other initiatives such as local learning partnerships and education business partnerships have insecure funding streams.

One of the first challenges will be to think through how, in the most general terms, funding should be allocated to the new combined body. We must consider the extent to which that should relate to the population, the needs of the area, the number of people who are unemployed and those who come under the recommendation of the Beattie report. The general direction of how resources are allocated in the context of a substantially growing cake is something that the board will consider. The process concerned is important in order to preserve the integrity of the audit function of Scottish Enterprise. The joint venture board would give general direction about the extent to which the allocation is needs or population based, but the distribution of the money within the ring-fenced total envelope is an operational decision for the central unit of careers Scotland, which will be located in the enterprise network.

**The Convener:** At the moment, there are two budgets—the £25 million that it currently costs to

run the careers service in Scotland and the £24 million of new money over three years, which is ring-fenced primarily for social inclusion and the all-age service. However, we are creating two national bodies that will require funding. As well as the issues of distribution to the local bodies, where do you envisage the funding of the central organisations coming from? Presumably they will be involved in development work and there is a danger that a lot of money will end up in the head office. There is no clear indication where the funding for the two head offices—one for the Highlands and Islands and one for the rest of Scotland—will come from.

**Ms Alexander:** There are two issues. At the moment, there are about 80 organisations that have contracts that run through to April 2002. One of the decisions that we need to consider in the next year—it will be considered by the joint venture group—is what security of funding people need beyond April 2002 and how that can be achieved without locking the new structure into historic funding arrangements. The amount of money that organisations will get is guaranteed until 2002, but there will be discussions over the next year about how much further forward guarantees need to be given to allow programme delivery to continue without undermining the scope of the new organisation.

Some of the funding for that transition will be taken up by the Executive. We resource the joint venture group, which we chair. However, the implementation teams will be located in Scottish Enterprise and Highlands and Islands Enterprise and certain funding will be a matter for them. If the committee requires further details, we will address that as far as possible in our response that will come out at the beginning of April. However, I am anxious not to fetter the hands of the new joint venture board before it comes into existence and we get the stakeholders round the table.

**Miss Goldie:** How do we keep the process fresh? I accept that there is a laudable intention to take all the bits and pieces, shake them out and give them a more defined shape with clearer targets, consistency of provision and quality of service. How can that be kept fresh? The bilious amongst us in Scotland would say if that function is given to the enterprise network, it would simply become an add-on bureaucracy. How do you counter that criticism?

**Ms Alexander:** That is at the heart of deciding whether that is just the right thing to do or a real win-win. What inspired me to think about the matter was seeing what Grampian Careers had done. It put its entire service on the web and opened up shop-front premises on Union Street, opposite Marks and Spencer. Anyone can walk in off the street or log on to the web to ask for advice. That has transformed what that organisation is about. It is no longer made up of people who perform a librarian-type role but of people who have a different skills set, centred around personal mentoring. They take pride in staying with a client from 14 to 25 and beyond, helping them make those transitions, doing personal Myers-Briggs personality tests with them and not saying that the height of their aspiration for them is to figure out how to get funding for their nursery nurse course.

I hope that we can capture the spirit that is emerging in one or two areas of Scotland. We are not simply bringing four organisations into one; we are transforming what those organisations do to help all of us understand the jobs of the future. I grew up wanting to be a doctor and Annabel Goldie no doubt grew up wanting to be a lawyer.

**Miss Goldie:** Only because I had not the brains to be a doctor, minister.

**Ms Alexander:** I suspect that we both changed our minds umpteen times along the way. Tonight I am going to Deloitte & Touche's awards ceremony for the 50 fastest-growing companies in Scotland. I suspect that if I asked the families of the award winners what the award winner did, they would be unable to say.

We need the new organisation to allow us to get to the heart of describing the work that we are going to do in the future. We do not want people to say that they want to be a doctor, a lawyer or a train driver; we want them to be comfortable with the sort of jobs that the people who are winning the fastest 50 awards are doing. The win in this comes not only from putting four organisations together but from transforming what they do. We hope that the enterprise network has the management capability to help deliver that scale of transition in what people do daily in the organisation.

**Miss Goldie:** The national centre: education for work and enterprise at Strathclyde University has a significant influence. How can we ensure that organisations such as that will not be squeezed out because they do not fit into the neat shape of the new structure?

**Ms Alexander:** We believe that the education for work agenda is too significant to be simply an add-on to Duffner, which is what it became. We need to think again about what we do to kids in Scotland between the ages of 14 and 16 that squeezes the enthusiasm and creativity out of the ones whom the school service does not suit. The national centre: education for work and enterprise profoundly tackles that challenge, but its work is not mainstreamed across the curriculum.

As we recognise the significance of that area, Jackie Baillie and I have decided that we need to take a fresh look at enterprise in the classroom and ways in which it can be placed in the heart of the curriculum. We have asked Nicol Stephen, a deputy minister who used to be in my department and is now in Jack McConnell's, to lead the work over the next 12 months towards thinking about the place of enterprise education in the classroom. I am sure that the Enterprise and Lifelong Learning Committee and the Education, Culture and Sport Committee will want to be involved in that. We have indicated that we will set up a committee to examine the area by April 2001 and ask it to come to its conclusions before April next vear.

**Mr MacAskill:** Given what you have said about the labour market and the action that you have initiated on labour information in relation to skills shortage, how do you think that that information will interact with the careers service? What input will there be? Will the careers service be given a remit to deal with current or forthcoming skills shortages, and will it be a proactive service as a result?

**Ms Alexander:** We have an opportunity to bring the three parts of the skills market under the umbrella of Scottish Enterprise. Careers Scotland will help people think about what they want to do, learndirect Scotland will help people to acquire the skills they need and the future skills unit—which is what we used to call the Scottish labour market information unit—will try to identify the needs of employers. On the question that you pose about how to direct people to where the jobs are, I think that the problem is largely one of information. For example, eight out of 10 trainees on the new deal with the Wise group opt to have information communications technology or call centre training, as that is where they know that the jobs will be.

I want to avoid compelling people into sectors of the economy that are growing, but I want to give people information about where they can expect to find job security if they move into those areas. That information has been lacking hitherto, because too much of our labour market information has been retrospective rather than forward facing. Once the future skills unit is up and running and has much better information at its disposal about the nature of the 100,000 vacancies in Scotland, that is when-perhaps in a year or two-this committee may want to take a view on how the future skills unit relates to careers Scotland-how directive the relationship should be-and consider the unit's link to the education sector.

Elaine Thomson: I have to say how pleased I was to hear you say that you would try to ensure that, whatever model is put in place, it will continue to allow careers Scotland to innovate in the way that Grampian Careers has been able to do. I know that the ability to work in joint ventures, put

together consortiums, lead bids and win funding from many different sources—not to mention generating income from the private sector—is very important to Grampian Careers and it wants to be able to continue to do that.

Have you had any feedback on the relationship between careers Scotland and the Employment Service? Has anyone suggested that there is a need to develop a national service level agreement with the Employment Service? One issue that is beginning to emerge from the presence of the Grampian Careers website is the balance between the vacancy handling service and job placement and which organisation should deal with which part of that. Grampian Careers gets a lot of job adverts from employers that have no relationship with the Employment Service.

**Ms Alexander:** The nature of the relationship with the Employment Service is critical. As Elaine Thomson will know, the Employment Service is due to disappear in June, along with the Department of Social Security. That will happen if we do not have an election and if we have an election it will depend on who wins it. The plan is to create a new agency that combines the DSS and the Employment Service. I think that, as soon as it is established, it would be appropriate to produce a memorandum of understanding between it and careers Scotland, but the writing of that should await the establishment of the new organisation.

The second critical issue is whether the new deal ceases to focus on only certain groups of the unemployed and becomes the central programme that typifies the way in which we interface with most of the unemployed; that is, whether it encroaches on the client groups that are currently covered by training for work.

The third critical issue is what the future role of careers Scotland should be in handling vacancies. As I said, that is the one aspect of the Duffner report that has proved to be controversial-there are different views within the careers service about whether the vacancy-handling role should remain with it or not. Duffner strongly recommended that that role should be moved away from the careers endorsed service and we have that recommendation. However, I would welcome the committee's view on that, because it is the one issue that has caused significant controversy. The obviously involves matter discussion with Westminster, but whether it is the right thing to do is an issue of principle; the committee's views would be welcome.

The Convener: We have asked the Education, Culture and Sport Committee to appoint to this committee a reporter on Duffner, because it must have input on your response to Duffner. That committee has not yet appointed a reporter, but it will. When we are discussing our report, we will get some input from that reporter, so that the Executive gets one response from the two committees.

**Ms Alexander:** Inviting Nicol Stephen to examine education for work takes the matter a little bit out of our territory and back towards education. Therefore, in its response, the committee might want to flag up the significance of work and enterprise interests being part of the review of education for work. There must be collaborative effort. That would be a marker for how the committee approaches the issue over the next year; it is the one unfinished bit of business.

**The Convener:** That brings us to the end of a marathon session. I thank the minister and her officials, both for the papers that they submitted and for their attendance for the previous two hours, which I think all members will have found illuminating. We look forward to Ms Alexander's next visit, which I hope will take place fairly soon—before the general election.

Ms Alexander: Six months hence.

# Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill

**The Convener:** The next item is a motion in my name on the order in which we will deal with the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill. I will let the clerk, Simon Watkins, give the background to the motion.

#### 12:00

**Simon Watkins (Clerk):** The motion is supported by Nicol Stephen, who is the minister responsible for the bill, although he has not formally signed it yet.

The proposal is that we deal with the sections of the bill in reverse order at stage 2. We will deal first with sections 3 and 4, which are commonly held to be the least contentious, and then with sections 1 and 2, which relate to the graduate endowment. There are a number of reasons for that order, one of which is that, as the first meeting at which we will deal with the bill will be on 27 February, the closing date for the submission of amendments will be 23 February, which falls within the February recess. We could just give everybody plenty of notice, but it might be more appropriate to deal after the recess with the sections that relate to the endowment, when all members will be able easily to submit amendments.

#### Motion moved,

That the Enterprise and Lifelong Learning Committee considers the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill at Stage 2 in the following order: section 3; section 4; section 1; section 2; section 5.—[*Alex Neil.*]

Motion agreed to.

### Item in Private

**The Convener:** Simon Watkins will introduce item 5.

**Simon Watkins:** The conveners group produced a paper considering the effectiveness of committees and ways in which they could work over the next year or two. Most other committees agreed to discuss the paper in private. We will put it on the agenda for our next meeting, on 13 February. Do members wish to consider that paper in private or in public?

**The Convener:** One or two committees have considered the paper in public.

**Simon Watkins:** The majority of the committees have considered the paper in private, although I understand that one committee considered it in public yesterday.

The Convener: The paper has been discussed by the conveners group and is now being discussed by the committees. It is about improving the effectiveness of committees in terms of their work load and whether they should meet more flexibly, for example, in the evenings or on days on which the chamber meets.

Unless there is a compelling reason to take an item in private, my inclination is to take items in public, but I am open to members' views. There is nothing in the paper that is so secret or confidential that it would force us to take it in private.

**Mr Macintosh:** I agree that as a rule we should not discuss anything in private if we can help it. However, as we do not know what is in the paper, it is difficult to make a decision on it. Frankly, I cannot imagine that members of the public will be interested in how we do our business, so I am very relaxed about whether we discuss the paper in public or private. We should not take the paper in private just because other committees have done so. If we discover next week that we could have a more constructive discussion if the paper is taken in private, I would support doing that, but at the moment I see no reason to take it in private.

**Elaine Thomson:** The Finance Committee discussed the paper in private yesterday, although Ken Macintosh is right that each committee has to make up its own mind. I suggest that we discuss it in private. There is nothing desperately controversial in it, but it deals with housekeeping issues and we would have a more constructive discussion about it in private.

**George Lyon:** I think that we should discuss the paper in private. A danger of discussing such issues in public is that members take public positions rather than discussing whether the

committee is working right or whether changes are needed.

The Convener: When does that ever happen?

**George Lyon:** It used to happen on this committee. We should have a serious discussion in private.

**The Convener:** Is it the consensus that we discuss the paper in private?

Members indicated agreement.

#### 12:04

Meeting continued in private until 12:56.

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	Printed in Scotland by The Stationery Office Limited	ISBN 0 338 000003 ISSN 1467-0178