

FINANCE COMMITTEE

Tuesday 4 July 2000
(Afternoon)

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FINANCE COMMITTEE **19th Meeting 2000, Session 1**

CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

DEPUTY CONVENER

*Elaine Thomson (Aberdeen North) (Lab)

COMMITTEE MEMBERS

*Mr David Davidson (North-East Scotland) (Con)

*Rhoda Grant (Highlands and Islands) (Lab)

*Mr Adam Ingram (South of Scotland) (SNP)

George Lyon (Argyll and Bute) (LD)

*Mr Kenneth Macintosh (Eastwood) (Lab)

*Mr Keith Raffan (Mid Scotland and Fife) (LD)

Dr Richard Simpson (Ochil) (Lab)

*Mr John Swinney (North Tayside) (SNP)

*Andrew Wilson (Central Scotland) (SNP)

*attended

WITNESSES

Mr Jack McConnell (Minister for Finance)

John Henderson (Scottish Executive Finance Division)

CLERK TEAM LEADER

Callum Thomson

SENIOR ASSISTANT CLERK

Anne Peat

ASSISTANT CLERK

Sean Wixted

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 4 July 2000

(Afternoon)

[THE CONVENER *opened the meeting at 12:51*]

The Convener (Mike Watson): I open the meeting with the usual message about pagers and mobile phones. This will be our last meeting this term or session—I am not sure which is correct—before the summer recess, so we have a fairly lengthy agenda. Before we start, I report that I have received apologies from George Lyon and Richard Simpson.

I ask members to agree to take items 2, 3 and 4 of the agenda in private.

Mr Kenneth Macintosh (Eastwood) (Lab): I do not know whether you want to discuss this now, convener, but—

The Convener: Before you say anything, Ken, do members agree to hold items 2, 3 and 4 in private?

Members indicated agreement.

Mr Macintosh: I have looked at the timing of the agenda and there might be a big gap between items 4 and 5. I suggest that we move items 6 and 7 into that gap. I thought that I would have to go to another committee meeting, but that committee will meet in this room after the Finance Committee's meeting, so I will not have to leave. However, the Finance Committee will have to finish on time and I would like to fit items 6 and 7 in.

The Convener: That suggestion makes sense—there is the possibility at least that there will be a gap between items 4 and 5. If the meeting is still going at 2.15 pm, we will break and take evidence from the minister. Is that agreed? That would mean that we might be able to finish a bit earlier.

Members indicated agreement.

Andrew Wilson (Central Scotland) (SNP): Is it possible for us to contact the official report? The *Official Report* of our previous meeting is not yet available and it is difficult for us to hold a meeting when that is the case. Such situations probably arise quite a lot due to resource constraints that are no fault of the official report. As members of the committees, we should make known our concerns so that the management of the Parliament can consider properly resourcing the official report, if resources are the problem.

The Convener: We all recognise the very efficient job that is done by the official report, but there is a limit to what can be done. I am not surprised that such a situation arises at this time of year, when we are busy and meetings pile up. You have, however, made your point.

If we do not have the *Official Report* to refer to, there is a bit of gap for us, particularly when there are agenda items such as the one that we are about to consider. What was said at last week's meeting will impact directly on that item.

I am sure that Andrew Wilson does not mean to criticise the official report.

Andrew Wilson: Not at all.

The Convener: We will note our concern in those terms. We are not being critical—we are simply noting that the logistics are such that we have not been provided with the report of last week's meeting.

12:54

Meeting continued in private.

14:01

On resuming—

European Structural Funds

The Convener: There have been no further developments in relation to our inquiry and we have yet to receive a formal response to our second letter to the Chancellor of the Exchequer. The Presiding Officer's letter suggested that there was a good chance that we might at least be able to take evidence from an official from the Treasury, but that has not been confirmed yet. I will do my best to get an answer to that request before we break for the summer recess.

The same problems beset the European Committee, which seems to have moved on. Members will have seen the questions that were put to the Minister for Finance, which seem to cover the European Committee's attempt to fill the gaps that were left by the non-appearance of a minister or official from the Treasury. I am informed that the European Committee now hopes to publish its report within a week of Parliament's return from the summer recess.

We must now decide what to do about collecting extra information, if we need it. The information that was supplied by Jack McConnell to Hugh Henry is useful for our inquiry and we must decide now whether we need further information. If so, we must press on and attempt to get a Treasury official to attend a meeting of the Finance Committee after the recess.

Andrew Wilson: We all share the disappointment that the inquiry has been stuck in this rut for some time. The specific information that I asked the minister for towards the end of the evidence session at the previous meeting remains the key piece of information that is required to answer the questions that are in my mind—if not in the minds of other committee members—and I have notified the clerk of that. That information concerns the year-in, year-out allocation through the block and formula arrangement and the way in which it compares with comparable expenditure. At the previous meeting, the minister confirmed that for the first time. If that information could be elicited from the Treasury, it would help us to confirm whether the minister's assertions at the previous meeting were correct. That is the one substantial and specific piece of information that we require.

The Convener: Are you suggesting that we seek that information by writing to the Treasury?

Andrew Wilson: Before we invited evidence from the Treasury—which must be about seven or

eight weeks ago—I suggested that we write to the Treasury in advance of the evidence-taking session, so that we could discuss matters with an official or minister on the basis of written evidence that we would have had in front of us. I still believe that we require such evidence before we consider what use we can make of oral evidence.

Mr David Davidson (North-East Scotland) (Con): That is much the same area that I questioned the minister on—I did not receive a clear answer either.

Let us return to the letter that the convener received from David Steel, about his speaking to John Reid. Has Sir David given any indication of John Reid's view of our position? The letter does not say very much. We are inviting a Treasury official to the committee, but have we received anything from the Secretary of State for Scotland?

The Convener: No. I did not contact the Secretary of State for Scotland; the Presiding Officer did that. We are no further forward than is indicated by the information in David Steel's letter.

Mr John Swinney (North Tayside) (SNP): The Secretary of State for Scotland's speech to the Scottish Grand Committee on 12 June made clear his view and that view is on the parliamentary record. He believes that information on European structural funds—a matter that must be addressed by the Finance Committee or the European Committee—could be supplied by the Minister for Finance. However, the Minister for Finance has made it clear that there are aspects of the inquiry on which he cannot comment because he does not have ministerial responsibility for them. That is a fair point. There is no real debate about the Secretary of State for Scotland's stance on the issue—he is passing the issue to the Minister for Finance to deal with. The Minister for Finance is quite rightly saying, however, that he cannot answer such questions because he does not have ministerial responsibility for those matters. We must insist that on such substantial issues as this—when there is an element of reliance on reserved issues and the responsibilities of UK ministers—we are entitled to hear the opinions of those ministers. We cannot complete our inquiry without them.

Mr Davidson: That is just where I was heading. I thank John Swinney for his intervention.

Mr Keith Raffan (Mid Scotland and Fife) (LD): I agree with John Swinney. There are two issues: getting information and the ability of a parliamentary committee to count on co-operation in carrying out its work. I do not understand why that is so difficult, especially as Executive ministers have given evidence to select committees of the House of Commons. Surely there should be a two-way flow of information.

The Convener: Nobody would disagree with that, Keith. We have made that point clearly in the second letter, if not in the first. However, there will not be such a two-way flow of information in this inquiry, although we may wish for it. There comes a point at which one must stop flogging the horse, because it is dead.

We can seek the information we require in the way Andrew Wilson has suggested. I have not given up hope of getting a Treasury official to come to one of our meetings and will press David Steel on the matter again this week. I do not disagree with Keith Raffan, but we must get the information that will enable us to complete our inquiry. Andrew Wilson made a specific suggestion—I ask him to clarify what information he seeks and the source from which we should invite it.

Andrew Wilson: There should be a firm statement in our report about taking evidence from outwith the Scottish Parliament. We need to make that position clear at the outset.

The evidence is quite detailed and I wonder whether the clerk could undertake to go back to the previous evidence. Essentially, we are looking for clear annual information about the comparable expenditure in England and Wales since the inception of structural funds. That expenditure was the basis of the calculation for the Barnett formula allocation of structural funds to the Scottish budget. The information we need is reasonably detailed, but it is also easily obtainable annually.

The Convener: The information is not something that we could expect the Minister for Finance to provide us with, because it refers to England and Wales.

Andrew Wilson: No. Getting that information would require the unpicking of the comparable expenditure in the English and Welsh budgets. It would be a matter for Treasury officials.

The Convener: Is it agreed that we should seek that information?

Members indicated agreement.

Mr Raffan: The letter from the Presiding Officer is clearly a holding reply, so I am not sure that you are right in your judgment that we are not going to get anybody—

The Convener: No, sorry, let me be clear: the reference to horses and flogging was in respect of a ministerial visit to the committee.

Mr Raffan: Oh, right.

The Convener: I made it clear that I will go back to the Presiding Officer tomorrow on behalf of the committee to find out where we are and to say that we do not regard the matter as closed.

The European Committee is publishing a report and we do not want to be too far out of kilter with the timing of that report. I hope that we will return to the issue in our first meeting after the summer recess.

Mr Macintosh: Will there be an interim report that we can discuss at that stage, or will we be coming back to hear evidence from the Treasury?

The Convener: It would be normal to finish taking evidence before we begin to put the report together.

Mr Macintosh: So nothing will happen over the summer?

The Convener: It is only fair that Callum Thomson and Anne Peat should get some summer holidays.

Mr Raffan: I presume that we could draft a report of some sort. As you know from this morning's session, convener, other committees embark on drafting of reports before they have heard final evidence—the cross-party group on drug misuse, for example. I agree with your point about not getting too far out of kilter with the European Committee.

The Convener: I did not want to commit Callum Thomson or Anne Peat to such work without speaking to them first.

Mr Raffan: That is fair enough.

The Convener: Callum, would it be possible to have a draft report ready for our return after the recess?

Callum Thomson (Clerk Team Leader): Yes—but with the caveat that Andrew Wilson's point is fundamental to the inquiry. However, we should be able to draft other aspects of the report for the first week back.

The Convener: Given that the Treasury does not go on holiday until the end of July, there will be time for evidence to come through.

Mr Swinney: There will be a skeleton staff.

The Convener: Yes—I am sure that they do not lock the doors during August. We will proceed on that basis and have a preliminary report ready when we come back in September.

Government Resources and Accounts Bill

The Convener: We move on to agenda item 5. I am pleased to welcome the Minister for Finance—

The Minister for Finance (Mr Jack McConnell): Here we go again.

The Convener: I also welcome Mr John Henderson of the Scottish Executive finance division. They are here to consider the Government Resources and Accounts Bill. Members have received a memorandum on the matter. Minister, do you wish to make an opening statement?

Mr McConnell: I will make a brief statement. The amendment to the Government Resources and Accounts Bill, which we have been discussing with ministers and colleagues at UK level, will be debated in the House of Lords this afternoon. On Thursday, the Scottish Parliament will be asked to approve the proposal. I therefore thought it important—both in principle and because it will be beneficial in practice—that the Finance Committee should have an opportunity to discuss the issues on behalf of the Parliament. I hope that we can deal today with questions or comments that members might have on the details of the proposal. If there are any questions that we cannot deal with, I will be happy to provide further information to members before Thursday afternoon's debate.

As members will know, Partnerships UK is a new body, which was set up as a company to support the public sector in developing public-private partnerships. It will be a PPP itself, with a 49 per cent Government stake. We want to have the option, which we will propose that the Scottish Executive should take up, of having a stake in the public sector part of Partnerships UK. The provision will allow the Scottish Executive to take up to 10 per cent of the UK Government's stake. I think that that is good news for Scotland. It would give us influence in and a say in the organisation as well as a stake in its success, which could only be beneficial for Scottish public services. The stake would cost between £1 million and £2 million, which we would have to identify within our budget and report back on to the committee in the usual way.

14:15

The benefit that Partnerships UK will bring is that we will have a central resource that will pool public and private sector skills. We will use those skills to ensure that projects throughout the UK—particularly in Scotland—are delivered to the

highest quality and achieve maximum value for money and to ensure that we have the best professional advice that is available. In the longer term, those skills can be developed to improve further public services and infrastructure.

Just as we will not be obliged to take the stake for which the provision allows, public sector organisations in Scotland—whether the Scottish Executive, councils or other bodies—will not be obliged to use Partnerships UK. They will do so only where that represents value for money. That choice is important and it is already being taken by several Scottish schools projects and by the Scottish Tourist Board. We are keen to show our willingness to support that. This is a good UK initiative, in which Scottish involvement can only be beneficial for our budget, our services and our relationship with our UK Parliament colleagues.

I hope that the Scottish Parliament will support the proposal firmly on Thursday afternoon.

The Convener: I will start by asking one or two questions on the mechanics of the power. The issue is dealt with in the memorandum under the heading "Constitution of PUK". The memorandum says that

"PUK will be a public company"

and that

"Scottish Ministers should be able to take up to a 10% share-holding."

Do you intend that the Scottish Executive should take the full 10 per cent? The paper mentions an advisory council of the public sector stakeholders. Will there be a board, as there is in any other public company? If so, who would represent the Scottish Executive?

Mr McConnell: On the size of the stake, the provision will allow us to take up to 10 per cent. If the money can be delivered from the Scottish Executive's budget, I hope that we can take as much as that. We will certainly want to consider taking between 5 per cent and 10 per cent. We will seek to identify the money for that before a final decision is confirmed.

Two issues arise in relation to representation. First, as a stakeholder, the Executive will have direct representation on the advisory council. It is yet to be decided at what level that representation will be, but it is important that we are represented. Having a stake in PUK will give us the right to be consulted on all appointments to the board. Rather than simply having a Scottish representative on the board, we will have a say on the composition of the board as a whole. That is better than having a constitutional right to a token nominee.

Mr Swinney: I want to ask about the parliamentary processes that are involved. We will

be asked to consider a motion to endorse the principle of the creation of Partnerships UK and the participation of Scottish ministers. That motion will go before Parliament on Thursday. Why, then, was it proper for you to say in an answer to a written parliamentary question on 13 June:

"I am pleased to be able to announce that the Executive will take a financial interest in Partnerships UK"—[*Official Report, Written Answers*, 13 June 2000; Vol 7, p 78.]

Mr McConnell: That is because it is our clear intention to do that and to legislate for that provision. It became clear that the best way to achieve that was through an amendment to the Government Resources and Accounting Bill, which is why the proposal is before the Scottish Parliament this week. Instead of delaying or seeking other means of legislating, we can move quickly on the matter and be able to use the powers. However, our intention is clear: we wish to hold a stake in PUK so that Scotland can have a full say in its development.

Mr Swinney: I am going to make a parliamentary point. Parliament has been asked to approve a motion several weeks after the Executive said that it

"will take a financial interest"—[*Official Report, Written Answers*, 13 June 2000; Vol 7, p 78.]

in PUK, but the minister is unable to tell us today whether the Executive has the money to substantiate that claim, because the source of the money has yet to be identified. Have we got the cart and horse the wrong way round, or are we not yet out of the stable?

Mr McConnell: Not at all. It was very important to notify the Parliament properly in early June that the Executive intended to take a stake in PUK. Without the clear agreement of ministerial colleagues and without a clear proposal being put before the committee about where the money was coming from, it would be wrong for me to say that we would take 7 per cent, 8 per cent or 10 per cent in the organisation. We intend to take the 10 per cent maximum stake as soon as possible. The proposal before the Scottish and Westminster Parliaments this week is the quickest and most efficient way to do that. The process follows the proper conventions in that both Parliaments give their assent to it. That is the right way ahead for the Scottish Parliament and PUK.

Mr Swinney: Can I encourage you to acknowledge the parliamentary issues that I have raised? The ministerial answer on 13 June might perhaps have been more complete if it had contained a reference to parliamentary consideration.

You mention the value-for-money tests that have been applied to the East Lothian and Midlothian schools projects, the Glasgow City Council

schools project and the Scottish Tourist Board e-commerce project. What were the value-for-money comparisons against which these projects were judged?

Mr McConnell: I do not have that detail with me today, but I will be happy to provide it before Thursday afternoon.

John Henderson (Scottish Executive Finance Division): Glasgow City Council was persuaded that it wanted the support of the new organisation because it had had support for its secondary schools project from the Treasury task force, which is the body that Partnerships UK is replacing. That support—and the individual involved—will now be part of PUK. In a sense, the value-for-money test centres on the track record of particular individuals in providing help; it is a scientific process, like a public sector comparator. Public authorities make judgments on the basis of the track record of individuals in helping to get other projects started.

Mr Swinney: Although I appreciate Mr Henderson's comments, I am concerned that the minister is telling us that a value-for-money exercise must be embarked upon to justify PUK's support for the development of projects when in fact the decision comes down to the judgment of public authorities. Public finances will be involved to some extent in any of those projects and PUK's fees will have to be paid out of public sector funds, whether a project is based on e-commerce or on a council's refurbishment of a school. I want to know a little bit more about the extent to which assessments of the competitive offering of partnerships are undertaken. Although I appreciate that judgments are made about individuals, what is PUK's judgment process and will any public sector body be able to choose projects that it likes, without any due process?

Mr McConnell: I will make two points in response to that. First, the situation has little to do with whether the Scottish Executive has the legal authority to take a stake in Partnerships UK. The proposal that is before the Scottish Parliament this week is that it should do so. We are not asking whether individual Scottish public bodies wish to use the services of Partnerships UK—which will exist whether we have a stake in it or not.

Secondly, it is important that we do not try to misinterpret or turn around words that are used carefully in the committee. I said that the judgment was about value for money for each of the public bodies that are involved. Mr John Henderson has explained clearly what that judgment can be—and has been—based on. Nobody has suggested that there was some numerical or calculable exercise or test. Different public bodies will have their own ways in which they make such judgments and account for them. For example, the accountability

of those judgments would be different for the local authorities that might use Partnerships UK than it would be for the bodies that are largely or partly funded by the Scottish Executive as agencies, departments or non-departmental public bodies.

It is important that we are clear that different bodies are accountable in different ways. They will not all be directly accountable to me for the way in which they decide—or do not decide—to use Partnerships UK. It is important that when we debate the motion this week, we debate whether Scotland should take a proper stake in a body that will exist anyway and that will—whether we influence it or not—provide services to Scottish organisations. My view is that we should be involved and that we should influence it positively.

Mr Raffan: In paragraph 5, you mention the type of Scottish project that Partnerships UK will support. In the conclusion, you say that a range of Scottish PPP projects will receive PUK support. Will you indicate the criteria that will be used to decide whether a project goes for PUK support?

Mr McConnell: Mr Swinney addressed that point. Projects will choose where to go for support based on the advice and support that they need to progress and whether the advice and support from Partnerships UK is better than that which they would receive elsewhere. The four bodies that have already made that decision have done so on the basis of experience and, presumably, other factors. That is a decision for them, which they will have made after due consideration.

Mr Raffan: You have kind of answered my question, but what I was trying to get at is that the Executive will have a minority stake of 10 per cent and will, I presume, have some influence on whether a project seeks Partnerships UK support.

Mr McConnell: Having a stake in PUK is not necessarily the same as influencing Scottish projects or bodies to use it. Although the matter involves public-private partnerships and there is therefore no private interest with which the Executive would have conflict, it would not be good for us to exert such influence. It is important to ensure that every project decision whether to involve Partnerships UK is made on its own merits. It should not be made under any undue influence or pressure from the Executive. We should not, on the other hand, tell a project to pull back from PUK support.

Mr Raffan: It might be my ignorance, but I am not clear what the great advantage of the proposal is to us. A 10 per cent shareholding of between £1 million and £2 million might be one of the cheaper concepts the minister has brought before us, but what advantages will it bring? Are interest rates likely to be lower because PUK is backed with a minority stake from the Treasury?

Mr McConnell: If we take a stake in this, we will have a better say in the running of the organisation and a proper stake in its success. That is good news for the Executive. It would be wrong of us to try to duplicate in Scotland such a skills base and resource. It would be a waste of our resources. It is a skills base that is already used by Scottish PPPs in a different form, at a UK level, through the Treasury task force. It is important not only that that is maintained, but that it is developed and improved. If we have a direct say and a stake in the success of that organisation, it will be better for Scottish public services.

Mr Raffan: I see that point, but will you address directly my point about cheaper loans? Will the fact that the Treasury is still involved, as there is a heavy Treasury stake in this, lead to cheaper loans?

Mr McConnell: The purpose of PUK is not to provide loan finance; it is to provide professional support and consultancy services. It will part-fund the professional costs of establishing and setting up PPPs. That money will return to the stakeholders in PUK as the projects develop. Its purpose is not to provide loan finance.

Mr Raffan: I did not say that it would provide loan finance—obviously it cannot with its relatively small budget of £20 million—but will it facilitate that?

14:30

Mr McConnell: We hope that the advice that PUK would provide would ensure that projects are delivered with the most cost-efficient loan finance and other packages that are provided. That is part of ensuring that the proper professional advice is available for those who are running the projects.

John Henderson: I will give the committee an example of the benefits. When several local authorities are taking forward individual schools projects to the markets and to the banks, they are not likely to get a good financial deal. PUK hopes to bundle several of these school projects together to ensure that they can go to the market at a similar time in a form that is attractive to the market.

It is interesting that the East Lothian schools project is one that PUK wants to back. Rather than taking an individual school, it is taking a group of six schools. It is an ambitious project for an authority of that size, but with PUK support there should be some benefits in terms of financing.

Mr Raffan: Similarly with the massive proposals relating to Glasgow.

Mr Davidson: I trust that the minister did not arrange for the parliamentary question to be

planted by Mr McNeil so that you could trail your record to the Parliament.

You have talked about the Executive taking up to 10 per cent of the total package. That is not in proportion to the Scottish percentage of the UK population. What is the linkage in the percentages between what we put in and what benefit we may receive?

Mr McConnell: If there were any payback to those who have shares in PUK, we would get back what we put in, in percentage terms.

Mr Davidson: So is it perceived as a profit-making organisation?

Mr McConnell: No, the intention is not to make profits; it is to ensure that the proper advice and support is available for PPPs across the UK. Where costs have been incurred by PUK, the intention is that those costs will be recovered from the individual projects as the life of the project goes on.

John Henderson: PUK will be a plc. There will be a return, a profit if you like, to those investing in it, but because the mission of the plc is a public mission, the private sector will get back the cost of their capital—a reasonable return on their capital—but they will not get any profit element above that. Similarly, for the public sector share there will be a potential dividend.

Mr Davidson: I accept that. The question was on the back of how I interpreted the minister's response. However, the minister has not answered in respect of the relationship between population and investment. If it is a UK body, I thought that you would have aimed for a standard UK input. Do we expect to get much greater support from this organisation than the rest of the UK?

John Henderson: It might be helpful if I explain that some of the criteria that PUK will examine when judging whether it wants to back projects will be whether the projects are large, difficult and replicable. Can it add value? It will not necessarily be looking at it from the perspective that it must have a project from Scotland and one from Manchester, one from Wales and one from Northern Ireland. It will consider projects against its criteria.

It so happens that there is a reasonable representation of Scottish projects in the first group of projects that PUK is supporting. The next time that it considers which projects to support it might decide that there are more Scottish projects or fewer Scottish projects, but I do not think that every time it chooses a project it will examine a grid that says, "Scotland must get 9 per cent."

Mr Davidson: You will understand why I asked that question, Mr Henderson. On that statement a

per capita amount means that you have just joined the UK club, which sounds quite reasonable.

Mr McConnell: It is also important to remember that if Scottish projects are defined as projects that exist in Scotland, they will not necessarily only be projects that are run by the Scottish Executive or bodies that come under the devolved responsibilities. The Ministry of Defence, the Inland Revenue or other UK Government departments could be running PPP schemes relating to buildings or infrastructure in Scotland.

It is not impossible that even the substantial involvement of the innovative Scottish projects that are already receiving advice and support through the mechanisms that will become PUK could be expanded upon by Government departments' having innovative PPP schemes that happen to be based in Scotland. I do not think that the geography of a project is a criterion for its receiving support. It is important that, across the whole UK public sector—in which we have a direct interest through the Scottish Executive's responsibilities—we are able to use the organisation to our best advantage.

The percentage is not based either on population or on the number of projects. It is a round percentage that allows us to have a stake. It was not chosen to represent a particular amount of projects by the Executive or by anybody else. It was not chosen because of the Scottish population share, although it is not far away. The share of the population itself would not necessarily meet the criteria because, for example, the number of civil servants employed by the Executive is about a quarter of the UK total. The Scottish Executive is one part of the overall Government machine which is much wider in its responsibilities and its financing.

Mr Davidson: I will finish with two brief questions. First, how will PUK be benchmarked? Secondly, if we did not join in, what would we lose out on?

Mr McConnell: I do not know about benchmarking. Mr Henderson may be able to help with that. On the second question, if we do not join in, we lose an opportunity to have a say and a stake in an organisation that will have an impact on and that will be a positive support to Scottish public infrastructure developments over the next few years. I think that we should take that opportunity, and that is why the proposal has come forward.

John Henderson: On the benchmarking question, only a quarter of projects will, in due course, have the support of Partnerships UK. The other three quarters will not. The acid test will be to ask what value has been added, whether the PUK projects have got to the market more quickly

and whether they have saved money for the public sector. If they fail that acid test, public bodies will be aware of the benchmark and will decide not to use the projects.

Andrew Wilson: David Davidson's point strikes me as reasonably important. We appear to be taking one fifth of the entire UK public sector stake in PUK. This is straightforward arithmetic: 10 per cent is one fifth of 50 per cent—or of just under 50 per cent. Given that our population share is half that—we are taking double our population share—and given what the minister has just said, that the Scottish Executive civil service share is a quarter, four times our civil service share, why is the Scottish Executive so important as part of the public sector's share in PUK? Is it because the Executive is overexposed to private finance compared to the UK average?

Mr McConnell: Both those calculations are wrong. The 10 per cent figure relates to the 49 per cent. Our maximum share under the proposal would therefore be 4.9 per cent. That is clearly a different calculation. My example of the number of civil servants was to show that, although the majority of schemes currently under consideration or construction in Scotland are the responsibility of the Scottish Executive and its related agencies, and of local government, there are also Government departments in Scotland spending a lot of money and using a lot of public buildings and infrastructure. They include the Department of Social Security, the MOD, the Inland Revenue and the United Kingdom Passport Agency.

Those departments may choose, sometime in the future, to be involved in PPP schemes to improve their infrastructure, buildings or equipment. If they are involved—they presumably have projects that Partnerships UK would wish to support—that is in addition to any Scottish Executive-supported or devolved responsibility-related PPP scheme. That is why I do not think it possible to take a straightforward population comparison, although the 10 per cent figure is not far from the Scottish share of the UK population.

That is not, however, the point. The geography of the schemes and the share of population is not the same as deciding the share of the devolved responsibilities and comparing that share with that of other public expenditure in Scotland, and it is not the same as the criteria that PUK will use.

Andrew Wilson: I am grateful for that. The 4.9 per cent does not appear in the memorandum that we have before us. That is the source of the misunderstanding that David Davidson and I share.

Mr McConnell: As I said, 10 per cent of 49 per cent is 4.9 per cent. I am sorry if that is not clear to all members of the Finance Committee.

Andrew Wilson: It is apparent that, until we meet on Thursday to decide on the matter, you are not clear where the financing is coming from, Mr McConnell. You are asking Parliament to sign up for a commitment to spend, although we do not know where the money is coming from. Perhaps it is coming from the contingency fund, but who knows? We are deciding on something that we cannot influence.

You said that we will have some influence on the advisory committee, but it has not yet been decided at which level. How can we sign up to something when we do not know what influence we will have? You told us that we will be consulted on the composition of the board, but not represented on it. Given the fact that the UK public sector will make up a substantial part of the board, why are you not seeking to have a more substantial and direct influence on the board?

Mr McConnell: I have already explained the last point. Being consulted on the composition of the board is better than having as a token representative someone who happens to have been born in Scotland. However, if the best people to be on the board were all Scots, that would be good. It is important that we are consulted on the composition of the board through our share in Partnerships UK. It is also important that we do not decide in advance the level of our representation on the advisory board. As a stakeholder, the Executive will make that decision in due course.

I thought that I made this clear earlier and I apologise if I did not speak clearly enough for all members of the committee. It is important to stress that this week's decision will give the support of the Scottish Parliament to the decision that can be taken in the Westminster Parliament to include the clause in its bill. That would give the Scottish Executive the power to take a stake in Partnerships UK. That is not the same as deciding the exact nature of our involvement; it is giving us the power to do so. That is the motion that is before the Scottish Parliament this week and I hope that that is the basis on which the motion is considered. Clearly, any decisions on the budget of the Scottish Executive will go through the normal procedures that this committee has agreed.

It is important to have the power in advance. We will not make a final decision on the amount of our stake until we have the power to make a stake in the first place.

Andrew Wilson: I am grateful for that answer. We are being asked to sign up for something without knowing how it will develop. When will we hear when we will have to commit financial resources and from where they will come, given that the organisation was launched recently?

Mr McConnell: Having the choice to take a stake in the organisation does not mean that we will have to. We will have a choice. As I have confirmed, the Executive intends to take up the opportunity and will decide the nature of the stake based on the resources that we have available. We have always said that that would be up to 10 per cent. We will involve the Finance Committee in that decision.

Andrew Wilson: Am I right in saying that the organisation exists?

John Henderson: The organisation exists as a wholly owned Treasury company. It does not exist in the form in which it will exist after the UK legislation receives royal assent, if it does.

Mr McConnell: The UK Parliament has to pass legislation before Partnerships UK can exist in its final form, which is why we are trying to legislate to secure a stake in the organisation.

Andrew Wilson: That would imply that the Executive's decision on the composition of the board would have to have been reached before the board was appointed. From this discussion, it is apparent that no one knows when that decision will be made.

John Henderson: It is likely that the launch of Partnerships UK will be in the autumn.

Andrew Wilson: But we do not know whether that will be before or after the end of the recess.

Mr Swinney: We also have a written answer that says that the Scottish Executive

"will take a financial interest in Partnerships UK".—[*Official Report, Written Answers*, 13 June 2000; Vol 7, p 78.]

Mr McConnell: I have not made any secret of that fact. I have been saying for weeks that the Scottish Executive has a clear intention to take a financial stake in the organisation. However, we will not pre-empt the power that we do not yet have—although we will have that power once the legislation is in place—or the financial decisions that will lead to our taking that stake and its exact amount. The Executive should make such a decision rationally and then follow the normal procedures through the Parliament. We are not going to be bounced into that in advance by questions of the sort that I am being asked today. We will make the decisions in a normal, rational way and we will involve the Finance Committee in line with the powers and agreements of this Parliament.

14:45

Andrew Wilson: On 13 June, you made a commitment to take a financial interest and today you have outlined that that interest will be of the order of £2 million. However, you have still not

said where that money would come from.

Mr McConnell: You are criticising me for not being specific about the amount and then you are criticising me for saying where it is not coming from.

Andrew Wilson: That is the point. You are the Minister for Finance and we are the Finance Committee—that is our job.

The Convener: No dialogue, please.

Mr McConnell: We have to be sensible about these things.

Andrew Wilson: Exactly.

Mr McConnell: Convener, I think that it is important that I have the chance to answer questions from the committee when they are asked.

It is important that the Executive should seek the power and state its intention clearly. We have done that in the normal way, through a parliamentary question on the day that the organisation was launched so that there would be no doubt in the Parliament about our intentions. We have been fully involved in all the discussions leading up to the creation of Partnerships UK. Scottish public sector bodies are benefiting substantially from the kind of expertise that will become Partnerships UK in its final form.

We intend to take a stake, but we will take a decision on the level of that stake at the appropriate time. We will do so in such a way as to continue the good dialogue that we have with the Treasury and those involved in Partnerships UK, including the chief executive who will be in Scotland tomorrow for further discussions. That body, our involvement in it and those who are represented on the board will be decided in the normal way but with the full involvement of the Scottish Executive. That is a good thing for Scotland. I hope that, this week, the Scottish Parliament will support that as something that would be beneficial to people in Scotland in securing the infrastructure improvements across the public sector.

Rhoda Grant (Highlands and Islands) (Lab):

In reply to a question from Keith Raffan, you said that it would be possible for a local authority to attract funding for several projects together. Could PUK take a bundle of projects from different local authorities—even from Scotland and England together? One of the problems in the Highlands and Islands is that the projects are very small, which makes them unsuitable for PPPs. Could PUK help that difficulty by enabling the Highlands and Islands' projects to attract PPP funding by being grouped with other projects?

John Henderson: That is the intention. Projects

should be able to be grouped together, provided that the local authorities are happy with that.

Mr Adam Ingram (South of Scotland) (SNP): Minister, you emphasise the importance of having a stake, to allow the Executive to have a say in PUK decision making. Precisely what decisions are you talking about having a stake in?

Mr McConnell: The board of PUK would determine the strategy, allocate resources and support individual projects across the UK. Our involvement in that is very important. As a devolved Administration, the last thing that we want to do is to separate ourselves from good UK developments that are of direct benefit to the public sector in Scotland. The work of the Treasury task force on PPP projects has been extremely beneficial to elements of the Scottish public sector over recent years. We should be involved in order to ensure that that benefit continues.

Mr Ingram: For the sake of argument, if the Scottish Executive wanted to bundle together a series of PPP projects on road building and put that out to PUK for assistance, are you suggesting that the Executive's stake in PUK could make a difference by ensuring that the projects would get support?

Mr McConnell: That would not be the purpose of having a stake in PUK. There would be a conflict if we were to try to influence matters in that way. What is important is that PUK would decide on individual projects on their individual merits, and that the bodies—whether the Executive or anybody else—that bid for PUK support would do so on the merits of that support for each individual project, not because of some other financial relationship between them and us.

Mr Swinney: I have a simple, almost blindingly stupid, question for the minister. Do you want PUK to be successful?

Mr McConnell: PUK will be successful. We want to be involved to ensure that that success is of the maximum benefit to Scotland.

Mr Swinney: But do you want it to be successful?

Mr McConnell: The answer is obviously yes.

Mr Swinney: If that is the case, I am confused by the answers that you gave to Keith Raffan. If you want PUK to be successful—and finance from the Scottish Executive is going into it—you must have a commercial interest in its success in attracting projects. Will the Executive be passive, or inactive, when it comes to encouraging local authorities and non-departmental public bodies to take their bids to PUK or some other venture? Will you encourage them to approach PUK, or will you encourage them to go somewhere else?

Mr McConnell: That depends on how you view success. The success of a body such as PUK, which is being established with a public sector mission to support public sector projects that will improve the public sector in Scotland as well as elsewhere, will be judged on the improvements to the public sector infrastructure that it is able to support and develop. That is different from commercial success, which is what you are referring to. My interpretation of success is slightly different from yours.

Mr Swinney: The question that I am driving at is whether the Executive will be active in encouraging public bodies in Scotland to take up an involvement with PUK.

Mr McConnell: The Scottish Executive would provide information on the support that could be available from PUK for Scottish public sector bodies. However, we would want those bodies to make their own decisions, based on what was best for them. If they felt that they wanted to pursue support at that level, they would be able to make that choice. Any suggestion that we would want to force anybody into involvement with PUK would be wrong.

Mr Swinney: I have one final question. Is there any legislative constraint that would have stopped the Scottish Executive from forming a venture of this type, in which the Scottish Executive could have had a 49 per cent stake and the private sector in Scotland could have been the 51 per cent stakeholder?

Mr McConnell: I am not aware of any such constraint. The economies of scale and the spread and continuation of skills that we can benefit from, as a result of PUK being a UK body, far outweigh the merits of a Scottish option, which is why we are strongly recommending our involvement in PUK rather than the creation of a Scottish alternative.

Mr Swinney: I am a bit perplexed by that answer. Since 13 June, a substantial number of projects have been contemplated, such as schools projects in East Lothian and Midlothian, the refurbishment of primary schools by Glasgow City Council and an e-commerce project for the Scottish Tourist Board. As there is a critical mass of projects, the direction for leveraging investment into capital projects for the public sector should be the PPP route. Adam Ingram mentioned road building; there is a substantial amount of activity in that area. I doubt that the argument based on economies of scale is justifiable.

I also doubt the argument about expertise. From my knowledge—which is based on the evidence that this committee has heard and on wider experience—I am certain that, within the public and private sectors in Scotland, a critical mass of

expertise exists to give support and direction to public infrastructure projects in Scotland. Did the Executive consider that as an option in this process?

Mr McConnell: Yes, of course. The Scottish Executive decided that it would be best to take part in Partnerships UK, although great skills exist in Scotland, which have developed projects that you and others have criticised constantly. I am sure that many of those projects would not have taken place without the commitment of skilled people in Scotland. That skills base will be expanded by virtue of the organisation covering the whole of the UK. The continuity that comes from the work of the Treasury task force, which has been of great benefit to Scottish PPP projects in recent years, is worth retaining. We have made a judgment in that respect. This option is better than the alternatives and can only continue to benefit the Scottish public sector. Ultimately, what matters is the provision of good-quality, efficient public services in Scotland. That is the criterion that we have used to make our judgment, which we stand by.

Mr Davidson: My question is simple. Is an exit strategy available to any future Executive? I ask that on behalf of my colleagues, John Swinney and Andrew Wilson.

Mr McConnell: Your colleagues who might not want to build the buildings or the roads.

Mr Davidson: It is a serious question. You are talking about a long-term commitment.

Mr McConnell: I presume that if we take a stake in the organisation, we will always have the option of withdrawing that stake. My hope is that we can be part of a successful operation, which can continue to benefit us in the future. However, like any other Government decision or venture that seeks to improve the way in which we provide and finance facilities in the public sector and to develop contract management skills, the operation should be continually reviewed and improved as the years go by.

The Convener: We should keep this in perspective. We are talking about maximum spending of £2 million. It is not exactly macro-economics.

Mr Davidson: That is at this stage, convener. The base of the question is whether the commitment is open ended. Should there be a further call on funds, will the minister have to come back to Parliament? If the Scottish Executive of the day decides that this is not value for money or that it has not set up the standards that you wanted, is there a way out? That is a simple question.

Mr McConnell: I assume that, if we make an

investment, we can also withdraw it. I also assume that, if there were ever any change to the amounts, that would have to go through the usual parliamentary procedures. The point that I keep coming back to, in this committee as elsewhere, is that decisions on budget allocations in Scotland are essentially made by the Parliament. They are recommended by the Executive but members have some control over the process and would be involved if circumstances were to change.

Elaine Thomson (Aberdeen North) (Lab): Presumably one of the purposes of PUK is to help projects that seek PPP finance access the financial markets and money. Is that all, or is its role also to assist a project all the way through, from planning to implementation? That kind of financial expertise is extremely specialised and many organisations and companies use it on a UK-wide basis rather than a Scottish basis simply because that is more cost-effective. The task force and PUK have presumably been set up because previously proposed PPP projects have had difficulty in accessing the required finance and were having to pull in the necessary expertise from the private sector, perhaps very expensively. Is that one of the reasons behind the setting up of the organisation?

Mr McConnell: Certainly one of the reasons is to ensure that people do not have to rely on expensive alternatives and that they have a pool of expertise. Expertise is not discovered overnight, but it can be built up over a period of time. The expertise already exists, but it will be built on by the creation of Partnerships UK. The activity of Partnerships UK will be far more diverse than simply financing PPPs—it will involve all the other professional skills that are required to set up a successful project and see it through. Those are an important range of skills, which I am sure can be used across the whole of the UK—not just here in Scotland—and used well.

Andrew Wilson: We are aware of the principles that the minister is outlining, but I want to touch again on the budget allocation. With the greatest respect, convener, £2 million might not seem a great deal, but it is a quarter of the Tayside University Hospitals NHS Trust overspend for next year, so it is a significant sum in some quarters. Given that there is no allocation for or even mention of this in “Investing in You”, are we to assume that the funds may come from existing underspends?

Mr McConnell: No, you cannot make that assumption. That decision will be made and reported to this committee through the normal procedures. It will be considered during the current spending review, and we will report to the Finance Committee in the normal way.

Andrew Wilson: Are we correct to assume that

there will be an allocation from the Executive budget in the coming financial year?

15:00

Mr McConnell: I hesitate to be repetitive in front of the committee. I hope that everybody can follow exactly what I am saying. The Executive has a clear intention to take a stake in Partnerships UK. That is in the interests of the development of good public infrastructure in Scotland. We will make a decision over the coming weeks and months about the level of that stake. That stake will then be considered through the financial procedures that we have agreed with the Finance Committee in terms of any alterations to existing budgets or projected budgets for future years.

Andrew Wilson: My second question is on the body itself. The public sector will be taking a significant shareholding. The private sector will have a 51 per cent shareholding. Will the staff who are employed by PUK come from the private sector or the public sector, or will there be a mixture? What protections or safeguards do we have if there are conflicts of interest between the companies with a shareholding interest in PUK and the place from where the staff have been recruited?

Mr McConnell: All the normal legal provisions will apply to conflicts of interest. That will ensure that those interests are safeguarded. My understanding is—and John Henderson will correct me if I am wrong—that the staff of PUK would be employed by PUK, and not by anybody else.

John Henderson: That is right. They would be employed as employees of Partnerships UK, whether they come from the private or public sector. They will be engaged on the basis of their skills. It will be up to the board of PUK to decide internally, as the minister explained, which projects they want to support. On the public sector side, it will be up to the public sector whether it wants to ask for PUK support.

Andrew Wilson: To be clear, we are talking about an organisation that has full-time staff and does not make use of consultancy services.

John Henderson: That is correct.

The Convener: I will take one more question, from John Swinney. We have given this a good go.

Mr Swinney: Can individuals representing private sector interests be members of the board if their companies are tendering for contracts that PUK will decide on?

Mr McConnell: I am not sure of the exact provisions.

John Henderson: If that situation were to arise, there would be a clear obligation on the individuals to say that there was a conflict of interest and not to take part in any decisions.

Mr McConnell: I would have thought that the same obligation would apply to the Scottish Executive, the National Assembly for Wales or the Northern Ireland Assembly in relation to any consideration by the board that might have an impact on projects that we were sponsoring directly. On conflicts of interest, the same provisions should apply in the public sector as in the private sector. We must have a situation in which conflicts of interest do not occur.

Mr Swinney: Where will the details be fleshed out? This will be a private company, so will there be regulations that specify how it is to be operated? Will it be possible to apply constraints beyond the regulations of the Companies Act 1989?

John Henderson: Like all companies, it will be subject to the Companies Act 1989. It will also have a memorandum and articles of association, which will be made available. One would expect the memorandum and articles of association to set out how the board would deal with issues such as conflicts.

Mr McConnell: We would be happy to ensure that the committee has early sight of those as soon as they are available.

The Convener: I thank the minister and Mr Henderson for answering questions. The committee is required formally to note the motion. Can I take it that the committee will do so?

Members indicated agreement.

Scottish Parliament Building Project

The Convener: The last item on our agenda is a report from Ken Macintosh, who is our reporter on the Holyrood project. On behalf of the committee, I would like to record our sadness at the premature death of the architect responsible for the Holyrood project, Enric Miralles. None the less, the project will go on and it would be helpful to hear your report, Ken.

Mr Macintosh: This is the update that we agreed it would be appropriate for me to give before the recess. I associate myself with the convener's remarks. Obviously, my report has been overshadowed by the death of Enric Miralles. Whatever we feel about the management and costs of the project, we can all pay tribute to the vision and imagination that the architect showed in his design. We can share the view that has been widely expressed today that the Parliament will be a fitting memorial to him.

The most significant development for my role in monitoring the costs of the project so far was the debate in the chamber on 4 April, when spending on this project was capped. We will find out in retrospect whether the Spencely report was the turning point for the management and monitoring of costs of the project, but at the moment it seems that it was.

The other significant development was the agreement to set up a progress group. I had some concern that there was a hiatus in the establishment of that group but, as members will be aware, it is now up and running. Its first full business meeting was going to be today, although I do not know whether that has gone ahead, in view of the death of Mr Miralles.

The progress group has three political representatives from across the parties and four professional representatives. I think that we can all be reassured, because the progressing group, unlike the Scottish Parliamentary Corporate Body, has been set up with the sole responsibility of monitoring the progress and costs of the Holyrood project. We can also take reassurance from the fact that the flow of information since the establishment of the progress group has been far greater than before. That allows us to be aware of what is going in with the project.

It was agreed in the debate in April that stage D of the project would be signed off. It was signed off about two weeks ago. That underlined a particular stage in the development of the project. It marked a stage in the development of the plans, which has implications for the overrun of the project.

There has been substantial progress. Two matters are outstanding. The project director, Barbara Doig, has moved back to the Executive, and the project is currently appointing a new director. It will not be a direct replacement because the role of the project director has been changed slightly. Applications for the post are being considered. The appointment will be another important stage in the continuity of the project.

Possibly more important for my reports to the committee will be the report of the Auditor General, Robert Black. His report, which we had expected this month, will now come out in September. The report was commissioned by the Audit Committee, which agreed that it was more important that he carry out a thorough examination of all the costs of the project to date rather than try to meet a deadline that might not be practicable.

That is us up to date. I intend to use the summer to further my inquiries with the new project team, the progressing committee and the Auditor General. I will report back as soon as practicable in the autumn.

Mr Davidson: Can Mr Macintosh assure us that at some stage he will refer to the Holyrood project's impact on the budget? I thought that that was his principal role.

Mr Macintosh: I can certainly promise that. What I did not particularly want to do was to duplicate work that was going on elsewhere. There has been a far greater flow of information to all MSPs and to this committee, which we can all be reassured by. What I have provided today is merely an update; when I have more material of substance—how much has been spent to date, how much is projected to be spent, which budget the money comes from and any potential impact on other areas of the budget—I will bring it back to the committee.

Mr Davidson: I am grateful for that. Could we have that information circulated in the form of a written report before a future meeting?

Mr Macintosh: Certainly. What I have provided today has been very much a brief update. However, you are right; I have not had a chance to draw up a proper report for the Parliament. Indeed, I did not particularly want to do so in advance of the Spencely report and, in particular, the Auditor General's report, as he is investigating these matters in a slightly more professional capacity. Although I will produce a proper report, that will not be before the Auditor General reports to the Audit Committee in September.

The Convener: Andrew Wilson has a question. I ask him to bear in mind the fact that we have to be out of here by 3.15 pm.

Andrew Wilson: First, I want to thank Ken for

his report.

Mr Macintosh: It was an update.

Andrew Wilson: Sorry, update. However, with the greatest respect, I understood that our specific focus was not on management issues but on the impact of the project on the budget. We have yet to see any specific reference to how the budget has been altered to accommodate changes that were announced in the Holyrood project over the past few months. That information is urgently needed.

Secondly, I thought that, given the fact that our job is specifically financial, the reporter's remit was to examine the impact of financing the project over four years and whether the most sensible approach had been adopted. We still do not have that information at our disposal. Perhaps the reporter could and should have considered the issue early on.

Mr Macintosh: I will take those comments on board. I agree that my remit is very specific—to monitor costs and their impact on the budget is very specific. Those elements will be part of my report. As I said, this has been very much an update and I have not wanted to duplicate work that is going on elsewhere, particularly by the Auditor General and in the Spencely report. The issues have been fully debated by the Parliament and I will provide a weightier report later in the autumn.

The Convener: It will be worth waiting for.

That concludes the formal business on our agenda today. I want to refer to a couple of minor items. First, at last week's meeting of the conveners liaison group, our request for external research was approved; that will now go out to tender over the summer. The Scottish Parliament information centre has some suggestions about whom we might use. Although we are not asking for specific suggestions just now, members should let the clerks know if they have any.

Secondly, on Friday 21 July, George Souris, leader of the National Party of Australia in New South Wales, will visit the Parliament between 2.30 pm and 3.30 pm. If any committee member could be here for that, they would be very welcome. Perhaps David Davidson is most likely to have political connections with that party.

Mr Davidson: I am sorry. I am away.

The Convener: It is not a handy date. However, I hope that other members will bear the visit in mind. It is important that we try to maintain links with similar bodies in other parts of the world.

Finally, I want to thank members for their contributions to the committee over the past year. I think that we have been an extremely effective

committee and I am sure that we will build on that after the recess. In the meantime, enjoy the break and come back refreshed; I look forward to seeing you all in September. I also thank our current clerks and those who have moved on to other things for their support over the year.

Meeting closed at 15:14.

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