



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 13 December 2011

Session 4

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
8th Meeting 2011, Session 4

CONVENER

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DEPUTY CONVENER

*Hanzala Malik (Glasgow) (Lab)

COMMITTEE MEMBERS

Helen Eadie (Cowdenbeath) (Lab)

*Annabelle Ewing (Mid Scotland and Fife) (SNP)

*Bill Kidd (Glasgow Anniesland) (SNP)

*Jamie McGrigor (Highlands and Islands) (Con)

*Aileen McLeod (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyd (Scottish Trades Union Congress)

Lesley Cannon (Scotland Europa)

Ingrid Green (East of Scotland European Consortium)

Morag Keith (West of Scotland Colleges Partnership)

Malcolm Leitch (West of Scotland European Forum)

Serafin Pazos-Vidal (Convention of Scottish Local Authorities)

Linda Stewart (University of the Highlands and Islands)

CLERK TO THE COMMITTEE

Ian Duncan (Clerk)

LOCATION

Committee Room 2

Scottish Parliament

European and External Relations Committee

Tuesday 13 December 2011

[The Convener *opened the meeting at 14:03*]

Decision on Taking Business in Private

The Convener (Christina McKelvie): Good afternoon and welcome to the eighth meeting of the European and External Relations Committee in the fourth session. I ask everyone to ensure that mobile phones and BlackBerrys are switched off, because they interfere with the recording equipment.

I have received apologies from Helen Eadie, who is attending another committee.

Agenda item 1 is a decision on whether to take items 8 and 9 in private. Item 8 is on horizon 2020 and our meeting with the stakeholders and item 9 is to allow the committee to discuss the evidence that we take today on European Union structural funds. Does the committee agree to take those items in private?

Members *indicated agreement.*

European Union Structural Funds

14:04

The Convener: For item 2, I welcome all our stakeholders to our round-table discussion on horizon 2020. I am hoping that we can have a free-flowing conversation, but if people want to get in, they should give me a nod. If we work things through the chair, everyone will get their say. I hope that people will comment on others' contributions as we go along. [*Interruption.*] Despite the weather, I think that we should be fine in this room—it is pretty structurally sound. Perhaps structural funds are the right topic to be discussing this afternoon.

This item is scheduled to finish at 3.30 pm, which gives us a little bit less than an hour and a half for a proper discussion. First of all, what do members and stakeholders think have been the strengths and weaknesses of the 2006 to 2013 programme? [*Interruption.*] The clerk has just reminded me that I should first get everyone at the table to introduce themselves. I also draw everyone's attention to the written evidence that we have received from people who are not present, which is very important to the discussion.

I am the committee convener.

Lesley Cannon (Scotland Europa): I am the European Union funding manager for Scotland Europa, which is a membership organisation and part of Scottish Enterprise.

Hanzala Malik (Glasgow) (Lab): I am the deputy convener of the committee.

Malcolm Leitch (West of Scotland European Forum): I am a principal officer with Glasgow City Council and my duties include co-ordinating the work of the west of Scotland European forum.

Ingrid Green (East of Scotland European Consortium): I work for the East of Scotland European Consortium, which is a membership organisation that is made up of representatives from local government.

Annabelle Ewing (Mid Scotland and Fife) (SNP): I am a Scottish National Party MSP for Mid Scotland and Fife.

Morag Keith (West of Scotland Colleges Partnership): I am from the West of Scotland Colleges Partnership.

Stephen Boyd (Scottish Trades Union Congress): I am an assistant secretary with the Scottish Trades Union Congress and am mainly responsible for economic and industrial policy.

Aileen McLeod (South Scotland) (SNP): I am an SNP list MSP for South Scotland.

Linda Stewart (University of the Highlands and Islands): I am head of European development at the University of the Highlands and Islands and am also representing the Highlands and Islands European Partnership.

Serafin Pazos-Vidal (Convention of Scottish Local Authorities): I am the head of the Brussels office for the Convention of Scottish Local Authorities, which is the national voice of Scotland's 32 local authorities. As European policy manager, I co-ordinate at European level cohesion policy in the Council of European Municipalities and Regions, which is the European local government umbrella organisation.

Jamie McGrigor (Highlands and Islands) (Con): I am a Conservative MSP for the Highlands and Islands.

Bill Kidd (Glasgow Anniesland) (SNP): I am MSP for Glasgow Anniesland and a member of the committee.

The Convener: Again, I welcome everyone to the discussion. I invite members and stakeholders to comment on the previous programme's strengths and weaknesses and any lessons learned that we can take forward to ensure that we have a better experience in the next funding round.

Malcolm Leitch: I guess that someone has got to start the ball rolling.

The committee might want to reflect on the fact that the programmes that we moved to in the 2000 to 2013 period represented quite a major change from what we had been used to with regard to European structural funds for the previous 20 years. That was not because there was less money around; instead, there was quite a radical shift in what the money could be spent on and in the programme areas, with, for example, all of Scotland south of the highland faultline being lumped into one area. In that respect, it has been very much a learning curve and certain points of the exercise have been a source of considerable frustration at times. We might well elaborate on this over the course of the afternoon but we have had some good pointers on how we might manage whatever money we get out of the next round as effectively as possible.

Lesley Cannon: Picking up on some of the things that Malcolm Leitch has mentioned, I think that it was a very different programme, and it has given us the opportunity to test some different strategic delivery models in a number of ways. We have learned quite a lot as a result of that process. We are in the process of evaluating how some of those models have worked, and there has been an evaluation of how the community planning partnership models have worked. We will find that useful as we go forward into the next programme,

which is likely to be even more focused on strategic impact.

Morag Keith: I agree with Lesley Cannon's view that the strategic development bodies represent a significant advance on the previous situation, with much more strategic thinking. However, we need to find ways of allowing them to be more flexible within their operations. There are lessons that we can learn from the model that we have developed.

The community partnership pipelines have been an excellent development, but we need to refine the current situation, which involves lots of different approaches. There are considerable administrative costs involved in some of them, whereas others do not have any administrative costs at all.

We have started the process of unit costing in the education sector. We worked with the Scottish Further and Higher Education Funding Council to develop unit pricing. UHI has developed a unit pricing model as well. The financial engineering instruments that we have developed are an example of fairly good practice, and we should try to expand them to align them with the Scottish Futures Trust's ambitions.

Those are the positive aspects. The main weaknesses involve audit. We have made significant progress, but we have some way to go. We ought to be focusing our attention on improving the standards of audit, so that we reach the European Commission's gold standard.

Linda Stewart: We are all very much aware of some of the weaknesses that we have had in the current programming period. A lot of those are evident when we consider the recommendations in the written submissions that have been given to the committee. It is quite encouraging to see that, broadly, people from a range of different sectors across the country are all saying the same things. The new programming period presents us with some critical opportunities at a time when we face a great deal of economic challenges. It is important that we get the approach right.

We have to be honest about the weaknesses in some of the current programmes. There have been some excellent individual projects, but there have been some structural problems with how the programmes have been delivered. As has been outlined, we have an opportunity to change the focus a little bit. At the moment, there is a danger that the programmes are becoming process driven. We are spending too much time on administration and on ensuring that the paperwork is up to date. That has to be done—but there is no question about that—but the balance needs to be right. We need to have more of an output-driven

approach. That is one of the key weaknesses in the current programme.

On the strengths, we have tried a lot of new approaches and have learned a lot of lessons through what we have done with the strategic delivery bodies and the community planning partnerships. Some good things have come out of that. The Highlands and Islands has two strategic delivery bodies: the UHI and Highlands and Islands Enterprise. In the first three years, we learned quite a lot. To be honest, we made a few mistakes in the approach, because it was new to us all. However, at the halfway period, we have taken a long, hard, critical look at that and said that there are things that we could be doing better and that we need to have a more strategic focus. We have changed a lot of the approaches, and that is already having an impact.

As has been said, we should consider what is working well and use some of those lessons. Many of us around the table have been involved in discussions about practical solutions to some of the administrative aspects of the issue. If we get that right, we will be able to drive home some of the big, strategic projects that we need.

14:15

Hanzala Malik: I appreciate the point about unit pricing—that is a welcome development. It is important that we establish that early so that we have a clear benchmark. I am interested in finding out how that affects student income in Scotland, not only for Scottish students but for students from the rest of the United Kingdom, Europe and outwith Europe. How does that affect them, if at all?

Linda Stewart: Obviously, I can speak only from our experience in the Highlands and Islands. The outcome is not directly on individual students per se. The additional funding is for an additional number of students and makes no difference to an individual student.

However, the funding makes a tremendous difference to our capacity to deliver. It means that we are not putting under threat a lot of the resources that we have for provision in a wide range of subjects and the wide range of levels that students can study at. That is particularly relevant for us in the Highlands and Islands because, once we start to fall below minimum numbers of students, particularly in the more remote colleges, we do not have the option of saying, “Well, we’ll put the course back on next year when the numbers are better.” The additionality of the ESF means that we can fund more student places and underpin our course provision across the piece.

Therefore, we are looking at more students being funded rather than additional funding for

individual students. However, it is an important point, and we need to follow through with the unit pricing model. So far, it looks as if it is working well, and it is a good pointer for future programmes.

Serafin Pazos-Vidal: I return to the issue of simplification. There is no doubt that the current programme has been innovative in the spatial targeting. The use of community planning partnerships is a unique feature that we find hardly anywhere else in Europe, and we have done some research with our European colleagues on that. The use of spatial targeting indicators to define the problem areas is also robust if we compare it on a European scale.

We have seen the need for further simplification during the programme. With some of the colleagues around the table, we have undertaken work on that and given evidence to the Scottish Government and the European institutions on the need to simplify the programmes further.

Without entering into the issue itself, I think that the key area to look to in the future is something that has been repeated in several of the submissions that have been made for today’s meeting: the need to ensure that the rules and practical implementation arrangements are agreed from the outset and do not change. That is basic but, for a number of reasons, difficult to achieve. We hope, and there are good prospects, that that will happen this time. We are keen to see that happen.

Another issue to look to for the future is that, under the new proposals, in theory at least, there will be less of an emphasis on the regularity of expenditure—all the classic audit and output-based methodologies—to ensure that the funds deliver. At the moment, this is a proposal and it is not clear how it will be realised, but in theory there is an issue of making the policy delivery outcome based. There are a number of instruments in the regulation that foresee that.

As Scotland uses the single outcome agreements for domestic policy purposes, it already has something that it can adapt for the new system. It may also be able to help other countries in Europe and show leadership in this methodology. Although it is an experimental domestic approach, it is far more advanced than anything that anybody else has attempted. It is something that we have compared with our colleagues and, as I say, we are looking forward with it.

Jamie McGrigor: Witnesses have talked about the strengths of what has existed between 2006 and 2013. In the 1980s and 1990s, the Highlands and Islands benefited enormously from structural projects such as causeways and bridges that

undoubtedly brought prosperity to islands that were dying on their feet. I do not think that many people on those islands would want to go back to when they did not have such things. Now that the Highlands and Islands has transitional funding, will there be any money for such large structural projects? For example, the Scottish Government wants to dual the A9 and the A96. I know that a lot of the A96 is not in the Highlands and Islands, but some of it is, and it will require some enormous projects that will need huge capital funding if it is to be dualled in its entirety. Do you think that that can be produced by European structural funds nowadays?

Malcolm Leitch: The short answer is that it is most unlikely. It is not so much to do with the core eligibility of transport infrastructure in a place such as the Highlands and Islands; it is just down to the expense of undertaking major road-building projects in relation to the overall size of the likely budget. As Mr McGrigor rightly indicated, such projects are very expensive.

I remember from my days with Strathclyde region getting lots of large capital grants for major road building round the motorway network in the Glasgow area, for example, so I have some experience in that regard. However, the trajectory of Scottish programmes, whether in the Highlands or the Lowlands, has been progressively to move away from basic infrastructure towards activities that, as the European Commission would view it, are more directly linked to economic development; it is a move away from expensive transport, water and sewerage schemes and towards direct ones, even on the capital side, such as site preparation and industrial unit provision.

That is the logic as you progress up the league table in Europe; the range of measures becomes less capital intensive, or less large-scale capital intensive, and moves more towards smaller-scale capital and revenue-type expenditure. That underpins, for example, the Commission's proposals to increase the proportion of ESF the higher up in the development trajectory you go.

Jamie McGrigor: Do you see that as a strength or a weakness?

Malcolm Leitch: One of the points that we have certainly made in the west of Scotland is that we must be careful when looking at the Commission's proposed list of priorities that the programmes have some scope for local discretion and ensure that there is a mix of activities that will best meet EU 2020 targets for more sustainable, inclusive and smarter growth. The mix of measures will not be the same in the Highlands and Islands as in other parts of the UK, far less other parts of the EU. We certainly hope that when the Commission comes out later this month with further narrative on what the priorities mean and what it wants to

be funded in the new programmes, there will be scope for bottom-up discretion so that what can be funded meets the development aspirations of the region concerned.

Linda Stewart: I have a brief point on the situation in the Highlands and Islands. Mr McGrigor made a good point when he referred to transition status. That is crucial for the benefit of the Highlands and Islands. It will mean that we get an additional amount of funding per capita that will allow us to do a lot more than we could otherwise do. It is an important deal for the Highlands and Islands and we would appreciate the committee's support on it.

Transition status is also important for the wider Scottish picture because it would mean that we would receive additional funding instead of having to work within a Scotland-wide funding budget and package. That would also allow us to concentrate on Highlands and Islands priorities and to look at what we need in that part of the country, which will be different from those elsewhere, within a single Scottish programme, which would be welcome. However, as Malcolm Leitch said, that still has to be within the realms of what is affordable and has absolutely to be in the realms of what is outlined in EU 2020. One of the key points at this stage is that we align what we propose to do with any funding that is available, whether transition funding or not, and ensure that we align that with the match funding that is available. That is one of the major weaknesses in the current programmes.

The Convener: I want to ensure that I fit everyone in. I am conscious that we have touched on the Highlands and Islands and the west of Scotland. Perhaps Ingrid Green would like to come in at this point and we will follow up with Stephen Boyd. All our invited guests will then have had a shot and we can elaborate a bit more.

Ingrid Green: My biggest plea to the Scottish Government and those influencing the debate is that we should build as much flexibility as possible into how we draft future programmes, not only in terms of themes. As we are a more affluent area in terms of overall gross domestic product, the geographical targeting has been an issue in our ability to access funds. However, there are areas of deprivation at NUTS II—nomenclature of territorial units for statistics—and NUTS III level and below that, at ward level, in more affluent regions. When we were looking to develop region-wide projects we found it really hard to develop some projects, for example on renewable energy, because we were able to do that only with rural areas and we had to take out the urban areas, which does not always make sense from an economic development perspective.

If we have flexibility in the programmes, we can cope with change. Responding to the economic

recession was difficult because we were tied into a certain programme.

Stephen Boyd: Linda Stewart and Ingrid Green have made most of my comments for me. I very much echo Linda's views on how important it is that the Highlands and Islands retains transitional region status, and Ingrid's comments on flexibility.

I was reading the evidence session that the committee had with Mr Swinney at the start of October. There was an interesting exchange between Mr Swinney and Mr McGrigor about the Western Isles. Mr McGrigor was talking about the causeways that had been built in the past through structural funds. The cabinet secretary suggested that in future it might be more the case that renewable energy research projects are funded. If we can, it is important that we retain the flexibility to do both. I can think of numerous small-scale infrastructure projects around the Highlands and Islands that would help to maximise employment opportunities in renewable energy. An example would be small road improvements in the Berriedale braes to improve access to Caithness. Numerous projects around ports and harbours will also be very important.

I am sure that much of that will be funded through the Scottish Government's renewables infrastructure plan, but there is certainly scope there for the ESF to pick up bits and pieces.

Aileen McLeod: The negotiations are taking place against the backdrop of a lot of uncertainty, not least given what happened at the weekend. The on-going euro zone debt crisis and the current debate on how we strengthen economic governance are taking place against attempts to negotiate a budget deal in a severe economic and financial climate. It is pretty much anybody's guess what European structural funding will be available for the UK and for Scotland. We have to be realistic about the pot. We have already seen a 50 per cent reduction from 2007 to 2013, from £1.1 billion—or was it £1.6 billion?—to £500 million, and it is obvious that the amount available will be a lot less next time around.

What would be your top three priorities in the negotiations? What are your red lines and what do you really want to happen as we go forward?

Morag Keith: Our priority would be to say that it is time to start looking beyond structural funds. We did not think that we would get the programme that we are about to get. We have been talking about exiting structural funds and finding alternative funding sources. Now is the time to stop hiding in the corner and looking at our toes and to start moving out into the middle of the room and looking up and out. There are 200 pots of funding in Europe; the European structural funds, funding for agriculture and funding for fisheries are only three

of them, and they are not even the most significant. The connecting Europe funds will be quite considerable. There are huge opportunities for transport infrastructure in the cohesion and territorial funds. We have not even looked at the detail of those yet, because we spend too much of our time thinking about structural funds.

The lifelong learning programmes, which are decentralised in the UK, are managed largely in England. The management fees for running them are £5 million a year. If responsibility for those funds alone were devolved, that would amount to £0.5 million a year to manage those programmes in Scotland, never mind the grants that would follow from the improved awareness, education and relationships that would result from that. That would be my priority.

14:30

Serafin Pazos-Vidal: To come back to the question, perhaps I can draw on my experience as someone who works mostly in Brussels. The disconnect between the high-level discussions and the discussions on the budget or the regulations is striking. It is funny, because the discussions go on without really being affected by the bigger, more existential argument, which, in terms of financial importance and the amount of money involved, is of far more far-reaching importance than the EU budget discussions. It is unclear how it will all end.

However, it is clear that member states and MEPs are working on the assumption that there will be a budget, there will be a deal and there will be a programme. That is the scenario—we cannot predict the future, so we have to work things out. To our surprise, the discussions in both institutions are going faster than expected, particularly in council. That is why it is important to have a clear view of what we want for the future.

As far as what we would like to see at the end of the programme is concerned, there are three headlines. The first is integration. It is clear that the possibility exists to have synergies between the different European programmes in Scotland. The notion has been floated of having a single programme for Scotland that could combine rural, maritime and structural funds. That is a welcome idea, but it remains to be seen how it could be operationalised, which will not be easy. The Commission will make further proposals towards the end of this year or early next year.

Secondly, the priorities must be workable. The Commission has provided a menu of priorities that point the way forward, but it is still unclear, for example, how the rural development priorities will be included. The Commission has further work to do on that.

The final headline relates to outcomes. As I said, there is a clear need to show that the priorities respond to outcomes. That will force colleagues around the table and elsewhere to do some hard thinking. They will have to participate in discussion to ensure that each stream of funding—whether structural, rural development or fisheries funding, or funding from other funds—makes sense. It would not make sense for the funding of the same activities to be replicated by several funds. That is not what the current reform of structural funds is about. Ensuring that each stream of funding makes sense will require very hard thinking from all of us.

Lesley Cannon: To pick up on Morag Keith's response to Aileen McLeod, I agree that we must start looking at what other funds can deliver outcomes for Scotland and, therefore, at what we should focus an integrated domestic European funding programme on. We need to work much smarter in looking at territorial co-operation, the horizon 2020 funds and things such as the life environment programme and the culture programme, where we have not performed as well as we might.

We have started to do some work with the partners, most of whom are represented around the table, on analysing Scotland's uptake of territorial co-operation and working out, in Scotland's case, what type of activity seems to lend itself best to that. We are continuing to look at that with a view to developing opportunities to encourage people and partners to get involved in such activity so that we can focus the domestic programmes on the more critical regional issues. I think that we would all welcome a joined-up framework for rural development and structural funds in the coming programme.

Annabelle Ewing: I am finding the debate very interesting, and I thank you all for coming along and putting forward your views. Following on from a comment by my colleague Aileen McLeod, I agree that we are living in interesting times—as ever—and we wait to see what will happen tomorrow, never mind next year. That is certainly true for the overall budget. The UK is clearly arguing for a decrease in the EU budget; that is certainly where the member state is coming from on that issue and others.

I am sure that everyone around the table would support transitional funding status for the Highlands and Islands. It would be helpful to be kept informed about that so that we can play our role in trying to ensure that that happens and that everyone is happy with the calculation of the NUTS threshold this time round.

Important points have been made about other funding streams in the EU. The written submission from the West of Scotland Colleges Partnership

makes the point, on page 21 of our briefing paper, that it would be important to

“develop a Scottish Funding Strategy that would set out Scotland's ambitions across all EU Programmes and ensure that the Structural Funds Programmes do not support projects that could and should be better served by other funding sources”.

I think that that means within the EU framework, and doing it that way is key. To pick up on Lesley Cannon's point, that is where we are at now, and it is where we should be going in the years to come. Perhaps we can have a more detailed debate on that today if there is time.

Ingrid Green made an interesting point about the rural-urban distinction. Again, it would be helpful to have more examples of how that causes difficulty for people on the ground and more information on what could be done about the issue.

Bill Kidd: I issue a wee warning to Lesley Cannon: if you call yourself an EU funding manager, a lot of questions are liable to be directed to you by everyone. I will ask a couple of questions based on the Scotland Europa written evidence. The first relates to

“increased interest and commitment to enhancing Scottish uptake of Territorial Cohesion ... Funds”

and

“the need for a ‘pan-Scotland’ approach”.

Is that being co-ordinated here in Scotland? A number of the organisations represented here have a significant interest in that issue, as do many others. Is there any such co-ordination? I imagine that Scotland Europa might be very involved in bringing those bodies together to ensure that, on the changeover to the 2014 to 2020 period, everyone is ready to take a pan-Scotland approach. That is particularly important because the territorial cohesion funds will enable Scotland to have stronger links with other areas in Europe that have similar needs and aspirations. I hope that that is not too long a question.

The submission also mentions a commitment to a move from grants to loans, which would no doubt make an awful lot of people panic. Can you give us any further information about that?

The Convener: I will bring in Hanzala Malik, then I will let Lesley Cannon answer those questions. I am sure that Morag Keith will want to come back in on the west of Scotland issue.

Hanzala Malik: I will pick up on a comment about the structural fund that exists in England but not in Scotland. Can such a fund be used only in a specific, limited territory, or is it for UK-wide use?

Morag Keith: Those funds are decentralised. They are European funds, but some of them get

decentralised to a member state. Up to now, the UK as member state has decided that the funds would be managed across the whole of the UK. We have argued for some time that we should devolve responsibility for the Scottish element of those funds, not least because we believe that we need to start looking at a legacy for Scotland, and the skills for running those programmes should be in Scotland. Those programmes will go on for much longer than the structural funds.

In essence, the UK awards contracts that allow the programmes to operate across the UK. However, you will understand that the education and training systems in England are completely different from those in Scotland. In the past six or seven years, we have had to fight for the right to access some funds, because the interpretation was that we were the same as English colleges, although we are not—we deliver higher education. We had many difficulties that, with Aileen McLeod's help, we eventually overcame. We would not have had those issues if Scotland had responsibility for managing the funds and exploiting them better for Scottish organisations.

Hanzala Malik: How do we support you to access the funds so that there is parity across the nation?

Morag Keith: The Scottish Government needs to ask the UK Government to devolve responsibility for the funds.

The Convener: Does Morag Keith want to answer the earlier question?

Morag Keith: Yes, I do. The point that I was trying to make was that structural funds should not support projects that would be better served by other funding sources. I have a specific example on which I hope others, particularly Lesley Cannon, will comment. The Government recently announced the rural broadband project, which has £68 million of funding from the UK Government broadband delivery UK resources and £50 million of funding from the Scottish Government digital fund moneys. The structural funds division has identified a further £25 million that could be aligned with that from European regional development fund priority 4. The project is a huge advance on anything that we have done before, so I do not criticise it at all. However, the £25 million from the ERDF can be spent only on supporting small and medium-sized enterprises. The project is about delivering high-speed broadband across all rural areas, so it is likely that about 10 per cent of it will affect SMEs. It presents a significant audit challenge to separate out the part of the project that relates to delivering high-speed broadband and the part that relates to delivering it to SMEs.

As I understand it, the Scottish Government's ambition for rural broadband is to link with Ireland

and the Scandinavian countries, as they have made better developments than we have. Ultimately, the aim is to link to the hub in Amsterdam, which will avoid London and allow us to link to the most up-to-date hub. To me, that absolutely cries out for territorial cohesion funding. We could have had a split across four of the territorial Interreg pots and had a really good project that allowed us to bring in all the partners that the Government has ambitions to join up with. I do not suggest that it would be easy but, with the right expertise, ambition and strategic direction, that is a way in which we could better exploit what is available to Scotland.

The Convener: The committee will certainly bring that to the attention of ministers. I invite Lesley Cannon to answer some of the questions. I hope that she has managed to—

Lesley Cannon: Retain them all? Yes, I have.

Morag Keith gives a particularly good example of a situation in which we needed to sit down together and think strategically. One big theme that came through in all our written evidence is that, if there had been more engagement in the development of the operational programme from the outset and if we had been clear on the objectives that we were trying to achieve across the patch with structural funds, we would have known who was engaging and who would need to deliver against those objectives. That is certainly what we need in the future. We need to build into that development things such as the broadband project, where a different source of funding would deliver a better and bigger impact for the match funding that is available in Scotland.

14:45

Coming back to Mr Kidd's question, I should say that Scotland Europa intends to be much more proactive in bringing organisations together, identifying opportunities across the range of funds and helping people to engage in some of these partnership projects. Under the current programmes, Scotland is eligible to bid into a pot of about €1.8 billion; to date, we have drawn down €35.8 million across 91 or so projects. There is significant activity, but the most funding that we have accessed has been from the cross-border programme, which is the newest one to us. Our analysis indicates that access to a national contact point for a programme tends to lead to greater activity in the area. All of these programmes have their own national contact points, a number of which are located in England. We have established a network of territorial co-operation—in other words, the national contact points—and we will bring those contacts up here at least every quarter to give people access to experts and to allow them to start developing programmes more

effectively. There is a lot that we can do and the Government is supporting us in that process.

As for the move from grants to loans, others around the table have already pointed out that Scotland has very good practice in the use of structural funds through not only the Scottish Investment Bank but the local authority west of Scotland and east of Scotland loan funds. In an environment where structural funds are shrinking, we want an element of them to go into recyclable funds to ensure that the money comes back to the bottom and we can continue to use it in the future. However, in the current economic climate, we will always be required to deliver some programmes that contain an element of grant funding to help companies to continue their innovation and growth aspirations.

Jamie McGrigor: The Commission seems to be saying that the move towards having a set of common rules for the five funds will reduce the complexity of applications. However, as Ingrid Green pointed out, flexibility is required. Why do the applications have to be so complex? I cannot see how there can be one application for five different funds. Would it not have to be pretty complex? Why can we not simplify the existing applications?

Secondly, as Linda Stewart made clear, the administration of programmes rather than the applications—or, indeed, both—should be simplified. After all, we want everything to be as simple as possible. However, the system must be flexible with regard to what is needed for the different areas. If the Commission really wants one set of rules for applying for the five different funds, will such a move actually make things simpler?

Ingrid Green: The territorial co-operation programmes will, for the first time, have their own separate regulation, which should in theory mean common rules for eligibility of spend and so forth. However, what will probably happen is that each of the programmes will go away and develop its own programmes and application forms. As a result, even though the rules will be the same, there will be differences. That applies to all programmes; even with the regional programmes, there are different interpretations of the same rules. I suppose that brings us back to the old adage and to ensuring that there are proper plan teams and that stakeholders can relay their practical experiences in the planning and drafting of programmes. It is quite basic: it is all about managing authorities speaking to one another.

Linda Stewart: A number of important areas have been mentioned. We simply have to address all this. We all know that significantly less funding is likely to be available in the next programming period. At the same time, we face an economic situation in which we need the funding more than

ever before. We will have to do some good thinking about how we can add value to what the structural funds and, importantly, the wider aspect of EU funding can do best for Scotland.

We all accept that there has to be a fair amount of transparency in programme and project administration—the forms that need to be filled in and the resource that is needed to take account of what is happening with what is, when all is said and done, public funding. However, we are trying to get across the message that the process needs to be a bit simpler and one way of doing that is by trying to move the Commission towards common application forms. That will be difficult—every director general to whom I have spoken in the Commission agrees that we need to have one simplified form, but they say that it should be the form that they use and that the others will have to change. Let us face it: we have a job on our hands.

Within that, it is important that we argue for consistency. There is a very serious issue underneath this. Let me tell you the experience of one of the smaller colleges in the University of the Highlands and Islands network over recent years, in one of our more remote island communities. The college had been doing a tremendous amount of really good additional work with ESF funding. We knew that the work was additional and that it would not have happened without ESF funding. When it came to gathering in all the required evidence of that work having taken place, the capacity was not there—there was not sufficient resource to gather all the work, to fill in the forms and to ensure that everything was there.

I find that unbelievable. The college had a history of delivering extremely well; it was performing well, making a difference to its community, and providing jobs and new courses for students, yet because the bureaucracy was so difficult, it was impossible to deliver. Its response was to say, “This is not for us; we will back off now, because it is too much of a risk.” We cannot afford to be in a position where that happens.

Again, we can look at some of the new approaches that are being taken; for example, there is the flat-rate costing methodology, taking a more strategic approach in advance, planning what is being done, and having pipelines for projects. In that way, things can be bulked up so that additional resource can be put into running some of the project administration centrally and the benefit can trickle down. What matters on the ground is the delivery of really good projects—that is what we are all about today and that is the one factor running through all the submissions.

Malcolm Leitch: I agree with everything that Linda Stewart said, but the real issue is not so much the complexity of the application form and

process—although improvements can always be made—but post-approval compliance. That is where the problems really start to mount up and the requirements on us are onerous, including keeping documents for ridiculously long periods of time to a ridiculous level of detail. Those are the issues that put off some smaller organisations: it is not so much filling in the forms as the compliance requirements—what needs to be done once the project has been approved—that have acted as a brake on activity in a number of cases. That includes a number of organisations, as Linda Stewart said, that are opting out of the ESF process altogether.

The Convener: A number of years ago, I managed a £500,000 ESF project that was all done on hard copy rather than electronically. I see a number of heads nodding—people know how difficult that was. Some of the box ticking is done online now, which is much better. There are resource implications for such projects. Our project was funded by Strathclyde Regional Council and we managed to tap into the Scottish Council for Voluntary Organisations and the work that it does in supporting organisations, especially at reporting stage and at monitoring stage. Our project used to shut for six weeks at pre-application stage and everybody would focus on that, then at quarterly monitoring it probably took a week to prepare everything.

I do not know whether there is any such network now. The support that I got from the SCVO at that time was critical; without it we would have withdrawn from the process. Do the stakeholders have any idea about where that network is and how it operates?

Morag Keith: That is exactly what we do. That is what our organisation is and always has been; it is a partnership of the colleges and we provide them with overall expertise. If a member of staff is ill or leaves, we can build the capacity of new people to take over. There is an element of that in all of the membership organisations, but it is not universal.

I was interested in the comment that was made at the horizon 2020 discussion about whether we can do things better for other people. On the way in, we said that if you want to know whether we are doing things well, you should ask not someone who does really well from the fund but someone who cannot get to the table. You should ask Strathclyde partnership for transport, which has very good projects but has consistently not had the capacity to have an EU expert to guide it through the complexities of the process. You should ask the housing associations, which are eligible to come to the table but have not been able to do so because everyone else has 20 years' experience on them. Such organisations

should be delivering projects, but they need more help. The expertise exists and the help is available, but we need to link things up.

The Convener: You said that the approach is not universal and that you support colleges, somebody else supports social enterprise and so on. Does a more strategic approach need to be taken? Is that our responsibility? Is it everyone's responsibility? Who should co-ordinate it?

Morag Keith: We are fortunate that our organisation has a board that is very good at looking at things from a strategic point of view. We helped the STUC to write a bid for its learning fund and we have worked with UHI on unit pricing. We also worked with the funding council to deliver its unit pricing model. We managed to be allowed to work in that way, but we are all public sector organisations and we all work for the same paymasters.

You asked whether that is your responsibility. Yes. It is time for us to look upwards and outwards and to be strategic.

Lesley Cannon: I will pick up on that theme. As a membership organisation, we are responsible within Scottish Enterprise for all its compliance and monitoring, so people in Scotland Europa have that expertise and we try to use it as much as we can for stakeholders around the table and for organisations that benefit from funds.

We are moving into the cross-border Interreg programme, because the complexity of compliance is a level above what we experience in the structural funds programme. We are therefore actively going out and helping people with the claims and monitoring process, because they need that support now. We must all bring our expertise to bear when we see pockets in which people need more experience.

Jamie McGrigor: Linda Stewart spoke about a college giving something up because the process was too complicated and bureaucratic. How could the rules and procedures be altered to ensure that that does not happen again, or does not happen so often? Would that involve the people who write the rules being brought over to see what they are doing wrong? Is that approach too simple?

Malcolm Leitch: It is all very well writing the rules, but we come to the wretched issue of interpretation. You can have an interpretation of rules and eligibility that you are happy with and which someone from the European Commission looks at and is also happy with, but two years later someone from the European Court of Auditors can say that they are not happy with it. That is a frustration.

Jamie McGrigor: I think that that is happening in the fishing industry.

15:00

Malcolm Leitch: It is striking a chord. We need a bit more up-front clarity when it comes to defining what we are allowed to spend the money on. If the rules were not changed halfway through, that would be helpful. One of the downsides to the process has been the retrospective changes to the interpretation of national rules on eligible expenditure. That is really unhelpful to all sorts of organisations, not just those in the third sector.

It is important to be aware of the direction of travel that Scotland is moving in. Instead of having a large number of small projects, we are moving towards having a small number of large projects, some of which will be frameworked through the strategic delivery body and community planning partnership pilots that we have been using in the current programmes. The trick will be not so much to try to get people to apply as to think of a new role for the third sector, for example, in the broader strategic framework projects and CPP arrangements. There are good examples in the ESF-funded parts of the community planning partnerships, and the lowland and upland Scotland programme area, where funds have been set up exclusively for small, local, third sector organisations to deliver employability-related stuff. The beauty of those projects is that the bureaucracy is not heavy, and that it is retained by the lead body—in those cases, the local authority. Also, the match funding comes at source, so they do not have to find the match.

That has been an effective way for small, local, voluntary and third sector organisations to access European structural fund support without their having to go through the application process. The activity is part of a wider framework that another organisation or lead partner has decided to pursue on behalf of the grouping in the area. That is a way of broadening access to the funds without encouraging more people to fill in application forms. There is a bit more subtlety to it than that.

The Convener: That is very interesting. We have had some approaches from third sector organisations that are really keen to get involved. If we had included them all today, we would have had a much larger round table. We are looking into facilitating a feedback session for those organisations. At lunch time, I was at the social enterprise cross-party group, where much the same things were being said. There are probably opportunities there, too.

I wonder whether Stephen Boyd could give us a wee bit of input on this. I do not know whether you know about it, because different people handle different things. Morag Keith mentioned the support that the STUC received for its learning programme, and I wonder how you feel that that benefited you, and how it could support us in

learning more about best practice in taking forward some of these issues.

Stephen Boyd: I am probably the worst person in the STUC to ask about that. A lot of what Morag Keith said resonates on a wider level. The STUC was lucky, in that we had a range of partners on whose experience we could draw, once we had decided that it would be appropriate to use ESF funds to support our wider learning work. I appreciate, however, that that would be more difficult for a smaller organisation without those partnership mechanisms. Our experience in running various Scottish Government project-funded work has probably also made it easier for us to do that kind of project-based activity.

The Convener: So “experience” is the key word.

Aileen McLeod: We talked about the strategic delivery models that have been used in Scotland. The Commission’s proposal talks about the development and investment partnership contracts. It states:

“For the Partnership Contract and each programme respectively, a MS shall organise a partnership with the following partners:

- (a) competent regional, local, urban and other public authorities;
- (b) economic and social partners; and
- (c) bodies representing civil society, including environmental partners, nongovernmental organisations, and bodies responsible for promoting equality and non-discrimination.”

It is therefore very much about multilevel governance. What should those partnership contracts look like in Scotland? Could our strategic delivery model be utilised through the development and investment partnership contract?

Morag Keith: The consultation on putting learners at the centre is a good starting point. That will allow all the agencies that are delivering for the 16-plus agenda to come together and create a single regional plan, which will fit with the CPPs, and agree on the outcomes and achievements.

As Serafin Pazos-Vidal pointed out earlier, we have some really good examples of that type of working together and we are getting much better at it. The review of CPPs indicates that although some lessons have to be learned, there is some really good work out there. We have made significant investment in that respect and we should just keep going, because we are nearly there.

Aileen McLeod: When the committee visited Brussels the other week, we met members of the European Commission’s directorate-general on regional policy, who were certainly impressed with

the idea of using CPPs in the strategic delivery models.

Serafin Pazos-Vidal: We are not just interested in all this; COSLA and a few other colleagues were very much involved in persuading the Commission to express what is set out in the article in these particular draft regulations that relates to the partnership principle. Although it falls slightly short of our original proposal, it is nevertheless very significant.

We believe that, in comparison with other member states and countries, the partnership element is significant to Scotland and we think that the EU rules on encouraging member states and managing authorities to organise proper partnerships not only with public institutions but with the wider set of stakeholders are essential.

Interestingly, the article in question applies not only to Scotland but to the UK as a whole; in other words, it says that the UK Government should involve Scottish organisations and certainly the Scottish public sector, including local authorities, in setting wider priorities. That is important, because with the new generation of EU rural and structural funds the Commission is putting in place a much more stringent set of conditions for member states and, subsequently, the devolved parts of those states. The UK will be under serious pressure to ensure that not only the Scottish but the UK-wide priorities for EU 2020 are right, because they will be delivered across the whole of the member state. As a result, the article needs to cover not just Scotland but the whole of the UK. The question, though, is whether it will survive the negotiations. I understand that it has been amended a number of times in the Council of Ministers, but we will see what comes out at the end.

I am keen to hear people's views on the issue of local development, which I note is the subject of about 20 articles in the part of the regulations that applies to all funds: rural funds, structural funds, the social fund and the maritime fund. That is a great breakthrough. Over the years COSLA and a few colleagues from other countries have been making a lot of noise about—and huge progress on—this matter with the Commission and we are very happy that it has been proposed at last. Of course, the challenge is to ensure that what has been proposed is delivered on the ground and that local partnerships can bring together different local authorities and local partners to define local priorities that make sense. It is a great idea, but we are still working on it. Indeed, two weeks ago on 29 November, we had a seminar with the Polish presidency, the Commission and the Parliament's key rapporteurs to ensure that the proposal goes forward. As I say, however, I am very keen for the committee to convey its support

for this measure, because that will greatly benefit not only Scotland but the whole EU.

Linda Stewart: I agree very strongly with Serafin Pazos-Vidal. Indeed, as Morag Keith pointed out, Scotland already has some very good examples of feeding into the partnership contract, and we should look at using and developing that work.

Given that we have spent a lot of time discussing some of the problems in the current programming period, I should perhaps note that what has been very good has been the increased willingness to work together directly with DG regio and DG emploi officials. With regard to earlier comments about changing rules, the fact is that sometimes we want the rules to change. In changing economic circumstances, for example, we need a little bit of room for manoeuvre. That can be a good thing if the discussion is two way and we have been very pleased with our involvement in that discussion over the past few years of the current programme. Colleagues in the structural funds division have been willing to take our views into consideration and to consider how we can move things positively. If we have more dialogue in future, we can perhaps cope a bit more with any changes.

To return to an earlier point, that is where the committee has an absolutely crucial role in setting out the starting point and the context within which the rules and changes can be monitored. That will mean that, if we reach a point at which the bureaucracy is unbearable—as it is right now—we can do something a bit more strategic about it, rather than just moan about how dreadful it is that we have another form to fill in, as we tend to do.

The Convener: Thank you. We have covered that subject pretty well.

I have experience of the European social fund. The priorities that have been set for that are promoting employment and labour mobility; investing in education, skills and lifelong learning; promoting social inclusion and combating poverty; and enhancing institutional capacity and efficient public administration. When I was first involved with that funding 20-odd years ago, we came up with fairly elaborate plans to attract some of the money, but we perhaps did not get the outcomes that we planned. Are those the right priorities for Scotland? If not, what would be the right priorities? Alternatively, only some of them might be right or they might need to be enhanced. Are there any other ideas that we can put out there?

Malcolm Leitch: This meeting is timely because, last Friday, we had a meeting of our CPP network, which is delivering the programmes. We talked briefly about the new European social fund and about the discussions at a helpful event

that our colleagues in COSLA arranged at the end of October. We considered the specification, although there are only bullet point headlines at the moment. By and large, we do not see any particular gaps between what the regulations say we should spend the European social fund on and what we want to spend it on, certainly in the lowland Scotland area. The fund seems to be specified reasonably broadly and in a way that will allow us to accommodate the type of employability and labour market training provision that, certainly from our perspective in the CPP network—which is a network not just of local authorities—we are reasonably comfortable with.

As ever with such things, the devil will be in the detail, to use that well-worn phrase. That is why the communication that the Commission intends to put out imminently on the Community strategic framework will be interesting, as it will allow us to find out what the Commission means by some of the headlines on the thematic priorities that relate mainly to the European social fund. I say “mainly” because we do some interesting things with ERDF money that fall into some of those areas, such as job brokerage. At present, that work is funded in the lowland Scotland area through the community planning partnership system. Therefore, it is a bit false to say that labour market training is something that only the ESF deals with. There is a role for the ERDF beyond the obvious ones such as that on hardware. In the past, much of the ERDF money has gone into improving the vocational training offer in various parts of Scotland. ERDF revenue funding is available that can make a big contribution to some of the social inclusion activities that are listed in that menu.

The Convener: Does Morag Keith want to comment? The college sector has a strong link to the ESF through employability, particularly given the backdrop of the current economic situation and low economic growth. Also, does anybody have a watching eye on the impact on some of the programmes of the welfare reforms that are coming?

Morag Keith: Not least of the issues is the scale of budget cuts that colleges face.

The policy that is outlined in “Putting Learners at the Centre—Delivering our Ambitions for Post-16 Education”, which is set within the CPP model, is perfect for the ESF programme. The ESF programme could not be better designed for Scotland. I make a special plea that we should recognise that Scotland is leading policy on the issue and that there are opportunities for us in the social innovation programme, which in effect sits beyond the structural funds. We could lead pilot activities under that programme that would then feed into our ESF domestic programmes.

We envisage that the ESF programme will be aligned towards the 16-plus agenda and, in particular, the guarantee for all for the most disadvantaged groups, which absolutely sits within what the Commission envisages for the programme. In the 20 per cent most socially excluded areas, there is an expectation that we will target Roma, which needs to be understood, but in essence, ESF could not be better designed for the Scottish model.

15:15

Serafin Pazos-Vidal: It is clear that the European social fund will play a major and increasing role in countries or regions that face challenges such as Scotland faces, not just because that makes sense but in response to several interdepartmental peace deals—namely, between DG emploi and DG regio. The role of the ESF in countries and regions such as Scotland will be much more prominent.

As you know, there is expected to be a ring fence, whereby 52 per cent of structural funds that come to Scotland will go towards European social fund activity. In discussions with colleagues we thought that such an approach is probably welcome, although of course local authorities that have made more use of the ERDF than the ESF might be more reluctant to think that. However, there appears to be a step in the right direction, given the logic of the broader policy.

The priorities are broad enough to be workable and have been largely welcomed. As you know, many of the priorities under article 9 of the general regulation—there are about 11 priorities and about 36 sub-priorities—are heavily earmarked as regards the ERDF. The ESF is a bit more flexible; we have to choose from four but we can more or less work around them. The approach is welcome—ideally, it would be good to propose such an approach for the ERDF, but in any case it is workable for the ESF.

There is still room for manoeuvre, because, as Malcolm Leitch said, there is not necessarily clear demarcation between the priorities and sub-priorities that are allocated to the ESF and what the ERDF is currently doing or might be doing in future, crucially in relation to social inclusion. That has to be refined.

The good news is that the Commission admits that the constitutional framework proposal was a bit rushed, so there will be a consultation in early January. I am sure that colleagues around the table will contribute to the consultation and try to refine where the limits lie for some of the sub-priorities.

Stephen Boyd: We have to consider the appropriateness of the thematic objectives in the

context of the current economic situation. We are a fairly unequal country at member-state level and inequalities have been exacerbated by the mini-depression that we are living through, in a spatial and a social sense. Traditionally, this nation spends very little of its GDP on active labour market interventions—far less than other EU member states. If the thematic objectives change, we could quickly lose the ability to intervene through ESF and the impact could be dramatic. In the course of the recession, various interventions in Scotland that were supported by European funds have made a tremendous difference, particularly in keeping young people in jobs and apprenticeships.

Linda Stewart: I echo what Stephen Boyd said. The broad parameters are fine and suit Scotland extremely well. We need to start looking at how we prioritise within the parameters, because the money will not be there to do everything. There is a difficult piece of work to be done on how we prioritise and how we maximise whatever funding can come through to support the areas that we are considering.

I make a couple of observations from a Highlands and Islands point of view on the European social fund proposals so far. Work remains to be done on access to education and training, to ensure that our more remote communities have access to the kinds of opportunities that more urban areas have. As we consider the labour market requirements of emerging sectors, we must ensure that we tie up skills and development to wider opportunities for Scotland.

For example, we cannot look at ESF work on renewable energy in isolation. We have to follow through with what is happening at national level. We also have to look at what is happening within ERDF. For example, within the Highlands and Islands transitional programme, we might want some more investment in infrastructure to support renewable energy, so we must ensure that our ESF money is working in the same way and supporting that investment. That has to go right through from basic level training—a lot of construction skills and so on will be needed—to postgraduate level and some of our research initiatives, and possibly on to horizon 2020 funding.

Annabelle Ewing: On Linda Stewart's point, the other week I had the great pleasure of visiting some young apprentice engineers who are dealing specifically with the installation and maintenance of wind turbines at the Whitlock energy collaboration centre of Carnegie College. It is a very impressive project. I am not sure whether it received funding from any European stream; it is the kind of project that we should be looking at in

terms of those funding streams. As the young people said themselves, the project is a career for them. It gives them an opportunity in life and they are very excited and enthused about it.

At the start, the convener mentioned something that you as practitioners will all recognise as being important. Whatever regime is in place, as it is being rolled out, discussed, debated and decided upon, it is crucial that we are all ready to go at the right time. I appreciate that it is difficult to plan when we are not entirely sure of the framework that will be in place, but I guess that you have a broad idea. How are you looking towards that date? What would you like to see happening in other agencies, including the Scottish Government?

Lesley Cannon: As Malcolm Leitch said earlier, we have been encouraged by the fact that the Government seems to be engaging with stakeholders much more proactively in planning for the next round of European programmes. We have been working with the Government to find opportunities to get stakeholders together to look at what we have learned from the previous programme and at what the new and more focused funding programme means for Scotland.

Recently, we all participated in the annual structural funds event. We looked at what we have learned and at what our focus and delivery mechanisms will need to be. A series of engagement activities will take place during the next 12 months at which we can collectively offer input to the priorities, themes and delivery mechanisms that should maximise the opportunities for Scotland to utilise best the likely match-funding mix.

Linda Stewart: Lesley Cannon has outlined some of the key issues. We all welcome the fact that there has been a lot more engagement this time round. We have been doing a bit of work with all the key agencies in the Highlands and Islands European Partnership, which encompasses all seven local authorities, HIE and UHI. We have also been working with some of the wider stakeholder groups, including the voluntary sector, environmental groups and so on.

We have had a lot of good discussion on how to plan for what is coming. We have a lot of ideas and a lot of good and bad experiences of what has happened in the current programme to feed in. We are happy to continue doing that, but we are also aware that it is good to be part of the wider Scottish debate. UHI is a member of Scotland Europa and we have been grateful for the opportunities that that has given us to be in the discussion.

Tomorrow we will have an important discussion with officials from the Scottish Government

structural funds division. They have asked us to outline our plans and have given us the opportunity to say where we are in the debate and what will happen next. For example, when we are considering lobbying with other transition or potential transition regions at UK level and across the EU and member states, we can align with what is happening at Scottish Government level so that the message is consistent and we have a better chance of getting the right outcome.

Morag Keith: I suggest two approaches. First, we should plan to use the underspend on technical assistance, so that we can properly evaluate what has worked and roll it out—particularly the simplifications—as far as we possibly can. We must look at where our weaknesses are—in tendering, for example—and begin to learn from those experiences. Secondly, we should not forget that there are two years left for the existing range of programmes, and that there are significant underspends in many of them, including the territorial and other EU programmes.

You mentioned apprenticeships. There is a new programme based around mobility of apprenticeships, which provides a European exchange that will enhance the experience for apprentices. There are many new opportunities, and we should try to begin them now, as we have two years in which to do so. Even though we do not know the detail of the programmes, we could put in practice the models, approaches and methodology and have them ready to roll out as soon as the programme starts.

Ingrid Green: As a sector, in the east of Scotland, we have been looking at priorities as our starting point. It is important that we move towards working with other sectors to see where we can align priorities and positions.

I agree with Morag Keith's point about technical assistance. For instance, the JESSICA—joint European support for sustainable investment in city areas—programme was launched yesterday. It is a new financial engineering initiative for urban regeneration. However, we do not have any practical experience of how the programme works because it is only one day old, so we will have to look to the Welsh, who are currently delivering it in the UK.

Looking to the future, we are moving towards a much more results-based approach in outputs. It would be useful to have technical assistance to carry out research on that in a raft of areas. That is very important: it is an underused budget, and we should make the most of it. Scotland has been really innovative in trialling financial engineering and, with regard to the Commission's proposals for local delivery mechanisms, we have such mechanisms in place already in the form of CPPs and other delivery bodies such as Scottish

Enterprise and UHI. We are in a strong position, but we do not have a lot of information about some areas that it would be good to explore.

The Convener: I am conscious of the time, and I am extremely conscious of the weather; I want everyone to get home safely. If anyone wants to mention anything that we have missed, please do so now. If any of you go away from the committee and think that you should have said something or that we missed something, please do not be shy about writing or e-mailing to let me or the clerks know. We will have a quick few minutes for a wash-up session if anyone requires it.

Morag Keith: I missed out one thing when I was talking about rural broadband. If we had organised it across the territorial cohesion programmes—there is still an opportunity to do so—we could have got up to £100 million, which is four times what you have got for Scotland. The supply of fast-speed broadband to rural areas and rural people is eligible for 50 per cent funding. That is the potential difference if you examine and exploit the different types of funds that are available, although I am not saying that it would be easy or that it is a walk in the park.

The Convener: We heard that one loud and clear. Lessons learned are very important, because they allow us not to make the same mistake twice. I hope that we will look at that.

I thank you all for your participation. We have found the meeting to be extremely informative, and there are a number of strands that we can take forward in our committee report.

Please accept our offer: if you think that we have missed anything, or if you go away and have a conversation with your colleagues and think, "I should have said that", please let the committee know. We are keen to gather the ideas and experiences of everyone out there so that we can take them forward in some of those areas by taking a team Scotland approach and punching above our weight.

15:29

Meeting suspended.

15:38

*On resuming—***“Brussels Bulletin”**

The Convener: Agenda item 3 is the “Brussels Bulletin”, which is regularly compiled by Dr Ian Duncan. I invite members to give me their comments on this meeting’s bulletin. Bill Kidd is first.

Bill Kidd: Is that because the light was shining off my head or something?

The Convener: I will not answer that.

Bill Kidd: I had a quick word with Ian Duncan before we started. My question is about the euro zone crisis, which is discussed on page 2 of the bulletin, carries on to page 3 and could probably go on for another 30 pages with the way that things appear to be mounting up. Can Ian say anything about the circumstances of that crisis in terms of the numbers of euro zone members that are economically viable as opposed to those that are not contributing economically?

Ian Duncan (Clerk): My word—that is an extremely difficult question. What became very clear last week was that the euro zone is driven by two member states—Germany and France, but mostly Germany—in particular. Of the remaining member states within the euro zone, it is very obvious that all are not equally solvent. At the moment, those that are most at risk—the well-known candidates—are Greece, Ireland, Spain and Portugal, and the make-or-break country is Italy.

The discussions last week were about a new architecture; they were not really about resolving the situation right now. That makes for an interesting period to come, because a lot of the discussion is now around that architecture. As far as I can work it out, the markets are not that bothered about it; they are bothered about what we are doing now. It is absolutely right that many countries within the euro zone cannot do much because they do not have the capacity to give funds. They need the money more than they can afford to give it.

Jamie McGrigor: On the same point, page 3 of the “Brussels Bulletin” refers to

“Automatic sanctions in case of non-compliance with deficit rules, i.e. a Member State budget deficit should not exceed 3% of GDP”

and says that

“These sanctions could only be overturned if a majority (85%) of member states agreed.”

That is a huge majority, is it not?

Ian Duncan: Yes. It is designed not to allow sanctions to be overturned, which is what makes the sanctions automatic. If a member state breaches the rules, there should almost be no saving them. So many member states would have to agree that the sanctions should not apply, which begs the question, “Why would they do that, given that they have already agreed that sanctions should be automatic?” One of the most difficult parts of the agreement is the automatic aspect. In the past, a number of agreements between member states, even at treaty level, have been breached by Germany, France and others within the growth and stability pact and nothing has happened to them. The European Court of Justice has not been able to sanction a member state. Moving to create an automatic sanction is a huge bound forward. Probably about 60 per cent of the member states within the euro zone would have been sanctioned by now.

Jamie McGrigor: What is the ultimate sanction? Is it to be thrown out?

Ian Duncan: No.

Jamie McGrigor: I do not understand this. If a member state is too poor to pay its contributions, does not do what it is meant to do or if it steps out of line with regard to its fiscal policies, what is the ultimate sanction?

Ian Duncan: A member state cannot be thrown out.

Hanzala Malik: Surely a principle of the European Union is that no member would be so poor that it would be thrown out. Countries are taken in only if they meet certain criteria. The only reason they become poor is if they are mismanaged. The European Union is trying now to assist Greece in managing its funds. I do not think that the EU would be looking to expel member states.

Jamie McGrigor: No, but if one sanction does not work, there has to be another sanction following it.

Ian Duncan: Oddly enough, gentlemen, you are both correct. There has to be a sanction, which looks very much like what Hanzala Malik has just described: greater involvement from EU officials to guide the economy of the member state that had breached the limits, which would have its economy managed from beyond its own treasury. That would be a loss of sovereignty the likes of which a member state had never witnessed before. I cannot see why a member state would want that, but an automatic sanction means that it cannot be avoided, which is the tricky part.

A lot of things that were agreed last week still need to be hammered out and I am not sure that all member states’ Parliaments will be equally

content to sign off some of them, because they will be quite detailed structures. One country that has not been mentioned is Finland, which has serious concerns about how this will work at parliamentary level; it wants to look at the matter in greater detail before giving it the okay. No one is even talking about the Finnish position on this, because it has been eclipsed by brighter twinkling stars around it.

15:45

Annabelle Ewing: I am not sure what would be a brighter twinkling star than Finland, but there we go.

Ian Duncan alluded to where I am going with my question. Obviously, at the time that Ian wrote this—[*Interruption.*] Is that my phone?

Jamie McGrigor: Sanctions!

Annabelle Ewing: I apologise, convener. I did not realise that my phone was on. That shows my knowledge of technology.

On Friday we saw dramatic developments that leave us in the position, at least in principle, in which 17 members of the euro zone and nine other EU member states that are not members of the euro zone will go ahead with an amended treaty which, it seems, it is intended will use the existing EU institutions for the 26 states, and the UK has walked out of that discussion.

That raises significant issues for the committee. The first thing I thought about was our poor fishermen. The fisheries negotiations are coming up this week, and our member state has walked out of other discussions. What negotiating position can our member state possibly have at this point in time? It is a worrying development for Scotland, but it is a development that the committee should seek to investigate further because it will have huge ramifications for Scotland and the rest of the UK. When I read the "Brussels Bulletin", that was the issue that came up for me.

The Convener: I am not surprised. The impact on Scotland—not just in farming and fishing, but in other areas—of the UK's decision was on my wee list of issues to mention. We already have a backdrop of uncertainty. What does the UK's decision mean for Scotland? There is room for the committee to have a broader discussion about the decision, and to invite UK and Scottish ministers to discuss whether it will have a detrimental impact—or even whether it will lead to opportunities. What does the committee think?

Aileen McLeod: I absolutely agree. We certainly need to ask the UK Government what vital UK interests Mr Cameron believed were at stake in the proposals from the EU 26. If I can put it bluntly, the decision seems to have been an attempt to smash and grab power back in terms of

financial services regulation. I think David Cameron was trying to change from qualified majority voting to unanimity the financial services regulation decisions, through a separate protocol that had nothing whatever to do with the treaty proposals that were on the table to try to solve the euro zone debt crisis. It was pure political opportunism that backfired spectacularly.

We have seen a complete reversal of the UK's foreign policy overnight, and we should not underestimate how serious the implications of that are for the UK's ability to represent Scotland's legitimate strategic interests in the European arena, and particularly in the European Council. The UK's, and therefore Scotland's, voice at the top table has been significantly marginalised as a direct consequence of David Cameron's actions. We will now not be part of the intergovernmental discussions. A number of key economic decisions will be taken by 26 member states, and we will not be at the races for any of them. That is a diabolical position in which to find ourselves.

The Convener: Thanks, Aileen. You have expressed a strong opinion.

Ian Duncan: Aileen McLeod is right. That is a fair assessment of the situation.

A number of member states have said that they want to go back to their Parliaments to consider the proposals. There are still concerns within some member states, but less about the issues that concern Britain than about the implications of the proposals.

One of the broader issues relating to the financial aspect is that the process will take place in two stages, involving the current financial crisis and an architecture of restoration. I suppose that what happens in the short term will determine how the second stage happens. One of the curiosities of the proposed rules is the need to determine how Greece, were it to find itself in its present predicament times 10—that is, just tumbling out—would be accommodated within the new architecture. That remains to be seen.

I am not saying that the EU has buried its head in the sand. It has moved towards solving one problem, but there is something happening right now, and it has not dealt with it yet. That is the bit that is going to roll forward between now and Christmas, and between Christmas and January. That will be an interesting time for the EU, because a lot will happen in that period that will be troubling.

Annabelle Ewing: I agree with Ian Duncan's point that we have yet to see what will happen. It is fair to say that we have yet to see whether the national Parliaments of the other nine non-euro zone members will maintain their position, or whether they will have to hold referendums.

However, as Aileen McLeod said, it is clear that the UK will not be at the table in the forthcoming discussions. That is a serious development, particularly for our financial services industry here in Edinburgh and Glasgow.

Ian Duncan: The curious silver lining is that, had there been a treaty, the process would have been much slower, because of the need for ratification by each member state's Parliament. An intergovernmental pact will, oddly enough, be quicker. The provisions could, therefore, be brought in much faster because there is no treaty. I hasten to add that that is an unintended consequence of what has just happened. The EU has avoided what is called the Irish problem, involving an automatic referendum on a treaty. Those events might have forestalled that necessity.

Aileen McLeod: Yes, but the member states could have used the enhanced procedure—which they tried to use initially—as well as article 136 of the Treaty on the Functioning of the European Union.

Ian Duncan: They could have done that, but there were discussions about that—even Ireland and, oddly enough, Finland were concerned about it. I was in Brussels last week, inside the cordon. Talking to people there was a curious experience. There was a genuine sense that they were getting to the bottom of the problem and finally sorting it out. Alongside that, however, I sensed quite a lot of unspoken resentment among member states that felt that they had no choice, and that Germany and France were simply pushing the measures through. They felt that there was nothing that they could do, and that they had to follow that lead. They felt that their ability to be different from Germany and France was being removed. There was definitely a sense of unease about the fact that opportunities for discussion were being eroded.

We can throw into that mix the parliamentary aspect, with a number of member states saying, "We won't even go back to our Parliaments; we are just going to do this." There is definitely a recognition within the EU that the democratic underpinnings are uneasily founded. That is an issue for this Parliament, for the UK Parliament and for all Parliaments. A lot is now rolling forward without democratic approval.

Hanzala Malik: Democracy is being damaged in Europe. We have seen changes of Government in Greece and Italy without elections. Those are clearly illegal movements, yet all of Europe has accepted them. That is frightening, because it takes away the democratic right of the people to choose their own Government. David Cameron's stance is questionable, to say the least, and colleagues are right to say that we have damaged

ourselves to a degree. However, it is important to ensure that we maintain some stability in terms of where we want to go. I therefore agree with the convener that we need to ask our ministers exactly what their philosophy will be, now that we find ourselves in this position. We cannot allow the Westminster Government to damage our opportunities and our ability to achieve what we are trying to achieve. We need to put in place a structure and a policy, working through our committees. I shall talk about committees later, under the next item, as I believe that there are certain issues relating to committee representations.

Events are moving far too rapidly in Europe and, if we are not careful, we could come away badly bruised. We need to ensure that that does not happen. We should not allow others to damage us. We might have our own shortcomings, but we cannot allow others to put us in a position in which we could lose out. Our strategy should be to take a belt-and-braces approach to what needs to be done to secure our interests. For example, there are a lot of questions around the fisheries issue. It is not only that our people may be denied their rightful fishing rights; I am concerned that Iceland will not be checked in the way that it should be. There is talk of taking measures against Iceland, including possible trade sanctions, but I do not think that that would work. People are not focusing on that issue, but we need to. It is right to say that we need to reconsider our strategy quickly to ensure that we can address the issues that will arise in the near future.

Ian Duncan: That is absolutely correct. The convener's suggestion of bringing in Scottish and UK ministers to outline where things stand is definitely valuable, and the sooner we can do that, the better. Things are moving so fast now that it is almost impossible to know what is happening.

I wrote down six things that struck me when I was in Brussels that will happen quite soon in any case. One is that the credit ratings agencies will almost certainly downgrade a number of the member states in the euro zone. It might not happen this week, but it will happen. They will probably downgrade the European financial stability fund, so its ability to leverage will be reduced, which will have huge implications for its ability to function. At the same time, the sovereign debt of various member states is now so great that €150 billion of sovereign debt will be sold by Italy alone in February, March and April. Is that going to work? In addition, the bank crisis will roll forward and banks will possibly all experience write-downs and downgradings of their own credit ratings. It takes only one German bank or one big bank to experience a huge problem for the world to look very different, and that is almost certainly going to happen.

We can throw into that the situation of Greece, which has still not been solved. The issue there is not even close to resolution. It seems to have dropped off the radar, as if we accept that the position is now so bad that we cannot do anything about it and need to move on, while almost pretending that it is not there—that is the frightening aspect.

Against that background, in the next few months the euro zone plus the additional member states will seek to construct a new architecture. A lot of attention will be spent on the new architecture for the new world order but, against that backdrop, all the things that I have described will roll forward, any one of which could unseat the rider and change everything completely. We would definitely value the UK and Scottish Governments' views on that because nobody knows just now. You could go from one end of the spectrum to the other in a breath because there is every view imaginable on what will happen, from the view that Britain will go on fire to the view that Britain will be the only one left standing as the European Union falls apart, and all views in between. We need to get an executive view at the UK and Scottish levels to get a sense of this, because it is so massive.

The Convener: It is all the more urgent because, as you said, what is being proposed is not a treaty in the usual sense in Europe and there is a pace that we are not matching and through which we could lose opportunities.

I have had Bill Kidd on my wee list for a while, but he has not managed to get in yet to speak.

Bill Kidd: It has been extremely interesting and worth while to listen to what Ian Duncan said—thank you, Ian.

I echo what everybody has said on the issue. Earlier in the meeting, we talked about how we will do on European structural funds between 2014 and 2020, but they might not be there—although we hope that they will and that the figures will be much the same or even better than what we talked about. However, it certainly does not look as if the political will is there, even if the bureaucratic side of Europe seems to roll on regardless. It cannot continue to do that unless the political will is there to support it. We need to consider the political arguments, so we need to talk to Scottish Government ministers and hear their opinions on what influence we can exert—whether it is on a UK basis, a transnational basis or a regional basis—across Europe. We also need to find out from Westminster ministers, up front and in person, where they see things going now that these actions, which I think are precipitous, have been taken. If they are not precipitous and there is some direction behind them, I would like to know what it is, and the Scottish Parliament deserves to hear it.

16:00

The Convener: If the committee is content, I will ask the clerks to produce a brief scoping paper on how we can take the issue forward and tie it into our work programme. Some of the things that we plan to discuss at our two meetings in January are flexible and we can play around with them. We will see whether we can get something set up for early in the new year. Is the committee happy for me to do that on its behalf?

Members indicated agreement.

Ian Duncan: May I add another point? It will allow swiftness of foot if the committee mandates the convener to begin to explore potential participants in the process, because time is tight and Christmas is in the way. If members are content with that, we will liaise with the convener and move towards securing appropriate participation.

Members indicated agreement.

Annabelle Ewing: On the scoping of the issues, things are very much up in the air. As a former European Community lawyer in the private sector, I note that there are implications in many areas of the single market, and particularly in financial services. To be frank, if the EU continues to have a nucleus of 26 member states, with the euro zone plus the additional member states, and they decide, as they will have to, to address the capital adequacy and solvency margins of their banks and other financial institutions, the bar may be raised, and the City of London and our financial services industry will be affected by that, but we will not be part of the discussions on it. From my experience of EU matters, I believe that what happened last week is the most devastating development. I simply cannot understand why it was done, except for the reason that has been suggested in the press, which is that it was an appeasement of Mr Cameron's back benchers, who take a very Eurosceptic line. There might be some other reason, as Bill Kidd suggested, but if so, I cannot see what it is.

I wanted to raise that issue because it is not at all clear what measures will be introduced to deal with the solvency and capital adequacy of banks and financial institutions in the EU. That is a big issue for them, because it is a cost issue and it will affect what credit can be made available and so on. It is important to take that into account as well.

Ian Duncan: You are absolutely right. One of the outcomes of the Council meeting was that the euro zone plus will meet monthly, in effect forming a proto-European governance structure, but it is less clear when that will start. Will it be after broader ratification? Is it imminent or is it to be delayed? Nor is it clear what will happen in the grey period before that happens, which is between

now and, say, the end of January. Even a casual reading of the newspapers shows that people smell blood in the water and things are going to happen. Will any of the structures be in place and in a position to address it should there be some sort of feeding frenzy? That is unclear.

Hanzala Malik: Convener, I suggest that we are going in circles. We decided to seek representations from ministers, and I think that we can move forward on that. You have been given authorisation to pursue it for us quickly.

Can I move on to the water efficiency element? There is not a great deal in the "Brussels Bulletin" about that. Historically, Scottish Water has experienced difficulties with Europe in relation to the quality of water, repiping and ensuring proper supplies. Can we get an update for our next meeting on the position with the European Union, any challenges that Scottish Water is facing and how we can help to resolve them?

Ian Duncan: Yes. I have not come up against that, but it will not be difficult to do what you request. I would say that the current bulletin is not for that purpose. It is—

Hanzala Malik: I appreciate that, but it has triggered a—

Ian Duncan: I am looking at your colleagues across the table, because the Rural Affairs, Climate Change and Environment Committee might already have begun to do some thinking on water quality and other water issues.

Hanzala Malik: I am just trying to establish Scottish Water's current position with regard to meeting European Union standards. Obviously, we do not want Scottish Water to be subject to penalties.

Ian Duncan: We can establish where Scottish Water is with regards to meeting the requirements of the water framework directive.

Bill Kidd: I have two issues to raise. First, I hope that the North West Rockall Bank is better than Northern Rock. That was a wee joke.

Struan Stevenson's report mentions powers over fisheries and member states and suchlike. Hanzala Malik mentioned the possibility of sanctions being imposed by the EU on Iceland and possibly the Faroe Islands. I read something about that recently and was wondering whether those talks have advanced. What is the situation? Will sanctions have to be imposed, or has a decent level of co-operation on fishing and the eradication of overfishing been reached?

Ian Duncan: There are a couple of answers to that particular question. The discussions with Iceland and the Faroe Islands sit outwith the end-of-year fisheries quota discussions that begin

tomorrow. The bilateral discussions are on-going and they have not resolved the mackerel question. It is hard to make any meaningful allocation in the absence of agreement on what might be a huge part of the stock. It is unclear when that will happen.

As we all heard last week when we met Commissioner Damanaki's deputy chef de cabinet, the Commission is going to try trade sanctions. I was going to say that that is its starter for 10, but I think that it is its only option at the moment. It remains to be seen whether that will be successful or not. I do not know and I suspect that there is no answer to that yet.

Jamie McGrigor: One of Iceland and the Faroe Islands is a member of the coastal states agreement, under which there are automatic sanctions—I think that Iceland is a member and the Faroe Islands are not. There are two separate problems there and I wondered whether you could clarify the situation for me.

Ian Duncan: I can tell you more, but I do not know whether I can clarify things. You are right that Iceland is within the coastal states agreement, under which sanctions can be imposed. However, Iceland seems to be indifferent to the threat either from that agreement or from the EU. I would have thought that the threat of EU sanctions would have been far worse because they would limit Iceland's access to the EU market, but Iceland seems to be unaffected by the threat and the imminence of action.

Annabelle Ewing: I understand that the parties have not reached agreement and that negotiations have been postponed until after the new year. I also understand that the measure that would allow sanctions to be pursued can work in parallel because it is an internal EC trade measure. It would be wise to use that as a negotiating tactic. Discussions have to resume in the new year to see whether agreement can be reached.

Ian Duncan: One difficulty is that fishing is one of the most peculiar aspects of European policy. All the management of the seas is decided in a very short space of time—often, overnight one day in December. That is a peculiar reality and, apart from the recent Council meeting, it is the only example of an all-night meeting that always happens.

Annabelle Ewing is right: there is a series of bilateral discussions with Norway, the Faroe Islands and Iceland that precede the negotiations. Those discussions are on the joint stocks that straddle the boundary of the EU's territorial waters; they roll forward and are usually tied up by now to allow for the end-of-year negotiations to allocate the unilateral stocks. For the second year in a row, it has been impossible to reach an

agreement on the joint stocks, with no great resolution in sight short of the sanction and no prospect as yet of that working.

Hanzala Malik: I remember the use of the Royal Navy against Iceland. We must be serious about protecting our stocks. At the end of the day, we must remember that the stocks have been built up not because Iceland made a contribution but because our fishermen stopped fishing to allow the stocks to increase to the current levels. We have made the sacrifice in the first instance, and we are now expected to make the second sacrifice to let other fishermen catch all the fish. It is outrageous.

Our ministers need to make the point strongly. The idea that we will make a decision in three months' time is ludicrous. We are looking for action and we are looking for it now. We have been put under so many restrictions. It is only fair that when others abuse our systems they face the same penalties. We need to protect our stocks.

Ian Duncan: One sad reality of the cod war is that we lost it. The Royal Navy intervened, but Iceland literally excluded the British vessels from its water and—Iceland would argue—protected the stocks inside its territorial waters by doing so.

The interesting dilemma this time is the inverse of that situation. The stocks are technically in Iceland's waters, but it wants to go against all the advice on sustainability and maintaining stocks. Iceland is turning on its head its past policy of sustainable fishing.

The Convener: I think that we have given the "Brussels Bulletin" a fair hearing. Are members content to send it to the relevant committees for their consideration?

Members *indicated agreement.*

Brussels Visit

16:12

The Convener: Item 4 dovetails nicely—it is on our visit to Brussels, which we all enjoyed greatly and learned a lot from. I put on record our thanks to the Commission, the clerks and everyone who was involved in hosting, organising and paying for our visit. The committee's thanks are duly recorded.

Members have a paper with a suggested course of action. I invite members to give their opinions, comments and ideas.

Hanzala Malik: If you will indulge me, convener, I have a number of questions to ask—for clarity for myself. The first line of the fourth paragraph of the report states:

"Each of the categories outlined above are expected to have some overlap."

What does "some overlap" mean?

Ian Duncan: The idea was that the particular proposals are not mutually exclusive. There could be different ways of drawing funds from different sources for common projects, so there might be some overlap in the themes that are proposed.

Hanzala Malik: The next paragraph states that the programmes

"will be governed by a code of conduct."

Which code of conduct is that?

Ian Duncan: That is the one that was outlined by Emma Udwin.

Hanzala Malik: Refresh my memory if you can, because I do not know which code of conduct you are referring to.

Ian Duncan: The proposal is that, as the new schemes are developed, there will be a code of conduct that will govern—

Hanzala Malik: So there will be a code of conduct. I take it that no draft is available.

Ian Duncan: Not as yet.

Hanzala Malik: Okay.

There are a lot of acronyms.

The Convener: Yes—JESSICA, JASPERS and JEREMIE. They are triplets.

Ian Duncan: I knew that you were going to ask about that. How about I write to you to say what they are? I have an idea, but I cannot remember, either.

Annabelle Ewing: Perhaps you could write to the rest of the committee as well.

Ian Duncan: I will write to you on that.

Hanzala Malik: I would be grateful for that.

Ian Duncan: I used to know what they meant, but it has slipped away.

16:15

Hanzala Malik: My final comment is that, although I found the visit educational and rewarding and I thoroughly enjoyed the learning process, I came away with the feeling that the regional committees that operate in the European Union are not very clear and concise. In some instances, regions are allowed to represent themselves—one example that was given was of a Scottish representative being allowed to lead on a committee that spoke about sports. However, in other cases, regions do not lead. I came away with the view that the governance of the European Union is not quite focused. Some regional committees have direct representation, but others do not. Sometimes, regional representatives are accepted and sometimes they are not. Under the current rules, only the host Government has clear representation. However, there are shades of grey. I just wonder what part of the grey area Scotland comes into.

Historically, since the European Union was set up, there has been constant change, but the committee structures and the representation from the regions has not changed. I am keen to ask our ministers how they feel that we should be represented. It is clear that the European Union is not focused on the issue, but decisions need to be made. Should we take the initiative to instigate change?

Ian Duncan: In talking about regional committees, are you talking about the Council designations?

Hanzala Malik: Yes.

Ian Duncan: The Council meetings involve the member states—that is how the treaties function. It is for individual member states to determine how to draw up their delegations. A member state such as Belgium can decide that a regional representative may lead, but that is a matter for the member state to resolve. The Commission will never step into that—it will always accept the member state's sovereignty in that regard. Broadly, that has not changed throughout the existence of the Council. The member state has always been paramount, although the competences of the EU have expanded significantly. You alluded to the sports council. At its most recent meeting, a Scottish Government minister—I believe that it was Shona Robison—represented the UK.

Hanzala Malik: I will interrupt you for a second. The point that I am trying to make, and that we need to recognise, is that the European Union has changed significantly over the years, as have member states. When the European Union was established, we did not have a Scottish Parliament or National Assembly for Wales. Many other states now have similar governance arrangements. The political situation has changed and people such as me are now accountable to our constituents on European issues. I need to know how to represent those interests. Given that the set-up has changed, should we not have discussions on that issue?

Annabelle Ewing: We took evidence on that in the context of the Scotland Bill a couple of months ago. We discussed all those issues and, as far as I recall it, our conclusion was that the rights of Scottish ministers to participate should be a given and it should be up to the UK Government to justify non-participation, so there should be a presumption in favour of the Scottish Government minister at least attending the relevant Council meeting at which the key issues were being discussed.

Obviously, in the light of developments last Friday, far from having the UK in the room, it seems that we will have nobody in the room. That brings us back to our previous discussion.

Ian Duncan: Yes, the Scotland Bill Committee is already engaging with that issue. I understand that it has finalised its report—

The Convener: It is working through the night tonight to finalise it.

Ian Duncan: I beg your pardon—the Scotland Bill Committee has nearly finalised its report, which will be transmitted to the UK Government and it will respond formally. That might offer us a starting point from which to explore the issue, depending on the UK Government's response. That would be a useful way to start.

Hanzala Malik: Given the developments in Europe, with the UK Government making the decision that it has and leaving us almost in the lurch, if I can use that language, representation is a more important issue than it has been historically. It is therefore important that we focus on this area of work. I would welcome ministers' comments once the Scotland Bill has been finalised.

Annabelle Ewing: That would be lovely; it is an important issue.

The Convener: Are there any other comments on the paper from the Brussels visit?

Jamie McGrigor: I have one point about an issue that I raised. The heading on page 5 is

“Azalan”, when I think that it is meant to be Asulam.

The Convener: Is Asulam not the lion in “The Lion, the Witch and the Wardrobe”? [*Laughter.*]

Ian Duncan: The misspelling is my fault.

Jamie McGrigor: I thought that I had better mention it. The point is that the company’s product is called Asulox and I now have the information on it, which I will send to João Pacheco. Funnily enough, I wrote to him previously about electronic identification, because I thought that it was EID that I had questioned him about, but it turned out to have been Asulam.

The Convener: That is noted.

Horizon 2020

16:22

The Convener: Item 5 is a report from Aileen McLeod, who recently attended a conference on horizon 2020 on behalf of the committee. I thank her, because she came home from Brussels, went straight back out to Brussels a day later and did it all in one day. Well done, Aileen.

Aileen McLeod: Thank you very much. I put on the record my thanks to the committee for the opportunity to represent it and speak on its behalf at this timely policy event at Scotland house in Brussels, which came the day after the Commission published its proposals for a new horizon 2020 framework programme for research and innovation.

I also say for the *Official Report* that the conference was organised jointly by the Scottish Government’s EU office in Brussels and Scotland Europa. It was a very busy event with a mix of people present from various EU institutions, devolved Government offices and the university and business sectors.

The focus of the discussion was on the need to increase the participation of SMEs in research and innovation programmes and the need to provide support from concept to market through the whole innovation and value chain. We asked how we can increase the innovation impact of SMEs and, for example, take large-scale basic research and convert it into small-scale products for commercialisation.

We also discussed how EU and national or regional instruments can be tailored to meet the needs of SMEs and research needs and how horizon 2020 can encourage and support greater collaboration between universities and SMEs. We asked whether we have the right structures or mechanisms in place to encourage such collaboration and how all that can help SMEs and business increase their uptake of research and innovation investment and spending.

I made welcoming remarks, focusing on the discussions at the committee’s recent round-table meeting at which we started our engagement with the academic, enterprise and business communities across Scotland, to see how the committee and the Parliament can best support Scotland’s stakeholders in preparing for the opportunities that will arise under the horizon 2020 programme.

The event was chaired by Julian Taylor, who is strategy director at Scottish Enterprise. There were two panels of speakers, the first of which was very much about setting the scene and

looking at what support is available for innovative SMEs. We heard three different perspectives, from the European Commission, from academics and from business.

Bernd Reichert, head of unit for SMEs in the Commission's DG research and innovation, talked about the Commission's thinking on SME support in the horizon 2020 proposals. The Commission is keen to ensure an adequate level of SME involvement, through action such as a dedicated SME instrument, which has been inspired by the United States small business innovation research programme and focuses on the early stage. The Commission is considering how to strengthen SMEs' capacity for innovation and at the same time promote the internationalisation of innovative SMEs that have growth potential, by upgrading the European enterprise network.

The academic perspective was provided by Professor David Gani, deputy principal of the University of Strathclyde. He is involved with the European consortium of innovative universities, which comprises 11 European universities, including Strathclyde. Strathclyde is an interesting example of an innovative university; it has specialist innovation centres, it promotes entrepreneurial activity and it runs joint postgraduate degrees. Another example is the University of Twente in the Netherlands, where the creation of business start-ups is part of courses and there is a dedicated budget and support for spin-off activities by bachelor of science students. There have been more than 700 start-ups during the past 25 years.

We also heard about Linköping University in Sweden, which has a strong tradition of focusing research on issues of high scientific and societal relevance. The university runs an entrepreneurship and new business development programme for students and researchers that has created more than 500 companies since 1994. The examples of innovative universities were useful.

The business perspective was provided by Dr Maren Hunds from the European Business and Innovation Centre Network, which supports SMEs to innovate and collaborate. There is very much a feeling that the role of SMEs in innovation is not understood and that universities do one thing and SMEs do another.

The second panel focused on case studies, including examples of current practice in Scotland. We heard from Siobhan Jordan, who is the director of the interface project, and Ana Coelho, who runs the connect-EU programme to promote Catalan participation in framework programme 7, through the agency for competitiveness that the Catalan Government set up. Interface is interesting. It acts as a central hub, which

connects businesses with Scotland's universities and research institutes, and it has initiated more than 400 company and university collaborations.

A number of challenges for businesses were identified. Many businesses do not know how to connect with suitable expertise. They do not know what academic expertise is available and they do not have the time or money to find out more. There was a discussion about possible solutions, such as the development of innovative programmes as a low-cost mechanism for engagement with more businesses throughout Scotland and the use of new and multiple online channels to try to open up business access to university services.

A couple of recommendations for horizon 2020 were made. A key point was that universities can help to underpin commercialisation but do not actually do it. Education and dissemination of information are needed and graduates need to connect with industry.

We also need to ensure that entrepreneurship is part and parcel of students' degree courses and that there is an exchange of best practice and evidence. We need to keep it simple and make it easy for our SMEs to engage and keep to their timescales. We also need to be able to offer targeted services for them, as they all have different needs, and enable them to become more business oriented.

That was the thrust of the discussion in Brussels last Thursday.

16:30

Annabelle Ewing: That was a busy day.

The Convener: That was a comprehensive report. Aileen McLeod obviously had a busy day. Do members have comments on her report?

Hanzala Malik: She can do mine next time.

The Convener: The report raised many points that we should incorporate into the work that we are doing on horizon 2020 and mentioned some key themes that chime exactly with what we want to get to.

Ian Duncan: We can draw them from the *Official Report*.

The Convener: Yes, to allow Aileen to draw breath. Aileen, do you have anything else to say?

Aileen McLeod: No, that is pretty much it.

The Convener: Thank you very much. We appreciate somebody going there who understands how it all works. That is important for us.

Commission Work Programme 2012

16:31

The Convener: Agenda item 6 concerns a first-stage report about our engagement with the European Commission work programme. I invite members to comment on the paper, which outlines the next steps in our engagement and assesses which Commission proposals are likely to be devolved interests. We have had a detailed conversation today about what is and is not a devolved interest.

Hanzala Malik: In our earlier discussion of structural funding, comment was made about a fund that the witness felt should have been devolved. That is outwith the work programme, I hasten to add, but it was an interesting comment. I was shocked that that fund did not come up to Scotland at all. It was suggested that it was up to the Government to pursue that, but could we pursue why Scotland does not get that fund?

Annabelle Ewing: From memory, I think that the contributor was talking about the management of UK-wide funds. The management of those funds does not cross over the border, so she felt that the Scottish Government should call on the UK Government to seek to rectify that.

Hanzala Malik: I agree with the lady that we should do that.

Annabelle Ewing: It would be fair to pursue it. I am not entirely sure what the specific measures are, but I guess that we could easily find out.

Ian Duncan: We can look at the *Official Report* and find out what the issues were. We could also write to officials about that. We might get the response more quickly if we did that than if we were to write to the minister.

The Convener: Yes. Let us do that.

We have made a bid for a chamber debate on the Commission programme and we could tease out some key elements during that. We hope that that will be in February. Lots of bids have been made, and the Conveners Group will discuss them on Thursday.

Does the committee agree to note the contents of the paper?

Members indicated agreement.

Committee of the Regions

16:33

The Convener: Agenda item 7 is consideration of paper 6, which is a proposal for a system for reporting on the Committee of the Regions. I am keen to get members' ideas on it.

One thing that came to light for me is that our parliamentarians who are members of the Committee of the Regions take their guidance from the Local Government Association, whereas the local authority members are linked to COSLA. The Local Government Association is a London-based organisation, and there is perhaps a concern about how we take forward the conversation.

The clerks have put together an idea for how the Committee of the Regions members could report back to this committee and I am keen to get members' ideas on it. I refer members to the conclusions in paragraph 9.

Annabelle Ewing: I understand point 9a and point 9c—they seem to make perfect sense—but I am not sure what scenario is being anticipated in point 9b, as distinct from points 9a and 9c.

Ian Duncan: I was trying to capture the idea that the COR members could participate specifically with the subject committees. Perhaps I did not make that as clear as I could have done. It struck me that there would be merit in a subject committee discussing a particular issue and the COR member being either ex officio around the table, or a provider of expert knowledge. This was about the subject committees in particular. There might be occasions when this committee is involved. That was the rationale.

Annabelle Ewing: That makes it quite clear, thanks.

Ian Duncan: I will clarify that point.

Hanzala Malik: Is it prudent for membership to be for just one year at a time?

Ian Duncan: We do not control that.

Hanzala Malik: Okay. It is just that, to have stability, you really need longer than that.

Ian Duncan: Members are appointed for the entire session and they can carry over if they secure re-election.

Jamie McGrigor: Does each party have a member?

Ian Duncan: No, but proposals to adjust the representation have been discussed. The idea is that there would probably be—[*Interruption.*] The notes have very helpfully been brought out. The

plan would be that there would be one member each from the Scottish National Party and the Scottish Labour Party and two alternate members: one each from the Scottish Conservatives and the Scottish Liberal Democrats. The idea is that there would be two full members and two alternate members; the full members would be from the SNP and Labour, and the alternates would be from the Conservatives and the Lib Dems.

Annabelle Ewing: I support the conclusion, now that I have understood point 9b. That makes sense, and it would be workable. It would be informative for the COR representatives and for the Parliament's committees.

Aileen McLeod: I concur with what Annabelle Ewing has just said. It is imperative for the Committee of the Regions members to be able to report back to this committee and it is also a good idea for them to report back to our subject committees, to ensure that we maintain continuity.

The Convener: I think that you are right. I did not like the light touch element. There has to be some sort of reporting back, albeit not as part of any tight, formal mechanism. We have moved on, yet nothing has changed since 12 years ago. If we want our committees to be much more interactive, we need to encourage that element.

Are members content to pass this to the Presiding Officer?

Members *indicated agreement.*

The Convener: We will move on to agenda items 8 and 9, which we agreed to discuss in private.

16:38

Meeting continued in private until 17:00.

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e-format first available
ISBN 978-1-4061-8004-6

Revised e-format available
ISBN 978-1-4061-8018-3

Printed in Scotland by APS Group Scotland
