

# **EUROPEAN AND EXTERNAL RELATIONS COMMITTEE**

Tuesday 23 May 2006

Session 2

£5.00

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## EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

### 8<sup>th</sup> Meeting 2006, Session 2

#### CONVENER

\*Linda Fabiani (Central Scotland) (SNP)

#### DEPUTY CONVENER

\*Irene Oldfather (Cunninghame South) (Lab)

#### COMMITTEE MEMBERS

\*Dennis Canavan (Falkirk West) (Ind)  
\*Bruce Crawford (Mid Scotland and Fife) (SNP)  
\*Phil Gallie (South of Scotland) (Con)  
\*Mr Charlie Gordon (Glasgow Cathcart) (Lab)  
\*John Home Robertson (East Lothian) (Lab)  
Gordon Jackson (Glasgow Govan) (Lab)  
\*Mr Jim Wallace (Orkney) (LD)

#### COMMITTEE SUBSTITUTES

Ms Wendy Alexander (Paisley North) (Lab)  
Derek Brownlee (South of Scotland) (Con)  
Richard Lochhead (Moray) (SNP)  
Nora Radcliffe (Gordon) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Chas Booth (Friends of the Earth Scotland)  
Donald MacKinnon (South of Scotland European Partnership)  
Dennis Malone (Highlands and Islands Partnership Programme)  
Gordon McLaren (East of Scotland European Partnership)  
Christine Mulligan (Objective 3 Partnership)  
Laurie Russell (Strathclyde European Partnership)  
John Stocks (Carbon Trust)  
Andrew Warren (Association for the Conservation of Energy)

#### CLERK TO THE COMMITTEE

Alasdair Rankin

#### ASSISTANT CLERKS

Emma Berry  
Nick Hawthorne

#### LOCATION

Committee Room 5



## Scottish Parliament

### European and External Relations Committee

*Tuesday 23 May 2006*

[THE CONVENER *opened the meeting at 14:00*]

### Item in Private

**The Convener (Linda Fabiani):** Good afternoon and welcome to the eighth meeting in 2006 of the European and External Relations Committee. The only apology that I have received is from Mr Charlie Gordon, who will be late, because he is serving on the Edinburgh Airport Rail Link Bill Committee.

Our first item is to consider whether to take in private item 8, which is a discussion of the committee's response to the draft national strategic reference framework. Do members agree to take that in private?

**Members** *indicated agreement.*

## Structural Funds 2007-13 Inquiry

14:01

**The Convener:** Item 2 is the first of two evidence sessions as part of the committee's inquiry into the Scottish Executive's plans for managing and delivering structural funds from 2007 to 2013. On 28 March, the committee agreed to hold the inquiry, which is linked to the work that we have done on the national strategic reference framework.

I welcome our witnesses. We have with us Donald MacKinnon, director of the South of Scotland European Partnership; Laurie Russell, chief executive of Strathclyde European Partnership; Gordon McLaren, chief executive of East of Scotland European Partnership; Dennis Malone, chief executive of the Highlands and Islands Partnership Programme; and Christine Mulligan, chief executive of Objective 3 Partnership.

We have a heavy agenda and a lot of witnesses to hear from. I will ask each witness to make a few introductory comments. Please do not take any longer than two minutes each, because I think that there will be more benefit in our asking questions. It might not be absolutely necessary for every one of you to answer every question. If you indicate to me that there is something that you wish to come in on, I will take that into account and ensure that everyone's voice is heard. Do not feel obliged to respond in turn to every point made.

**Dennis Malone (Highlands and Islands Partnership Programme):** I am director of the Highlands and Islands special transitional programme. Between 1994 and 1999, I was director of the region's objective 1 programme. Together, those integrated development programmes, which comprise the regional development fund, the European social fund, the European agricultural guidance and guarantee fund and the financial instrument for fisheries guidance, invested about £450 million in the economic and social regeneration of the Highlands and Islands and contributed to expenditure totalling £1.2 billion.

I am also chief executive of and company secretary to Highlands and Islands Structural Funds Partnership Ltd, which is the company that the local organisations established to administer the funds in the Highlands and Islands. I operate on a budget of just over £620,000 a year, which allows me a staff complement of 10 full-time equivalents, two of whom are based in Stornoway and one of whom is based in Lerwick.

The nature of the Highlands and Islands presents unique challenges in the delivery of

structural funds. On the one hand, we face competing demands in relation to accessibility and inclusion and have to balance the relative impact of small community projects in remote locations against strategic investment in major infrastructure. On the other, we have to ensure that the most fragile parts of the region benefit by targeting resources geographically. I am pleased to say that the Western Isles and the Argyll and the islands area are the principal beneficiaries of that approach.

We have tried to be innovative and imaginative and to drive out reductions in the costs of programme delivery. We have worked with our partners to commission projects, rather than waiting for bids to be submitted. All in all, the delivery of programmes from 2007 to 2013 should be an evolution rather than a significant readjustment of the way in which things happen now. It should maximise the economic and social impact, rather than focusing on the adherence to a particular, untested financial model. We think that evolution is probably a better approach than some of the things that have been suggested to date.

**Laurie Russell (Strathclyde European Partnership):** I am from the west of Scotland programme and I have been involved in structural funds for almost 17 years, since the first programme of funding in western Scotland. I would like to make a few introductory statements concerning the questions that the committee raised in its inquiry into the Scottish Executive's initial proposals.

First, I do not think that there has been sufficient analysis of, or evidence taken on, regional economic disparities across Scotland. I do not believe that that idea of a lowland and upland Scotland programme will sufficiently allow the structural funds to meet local needs, which differ in different parts of Scotland.

Secondly, we have always expected a reduction in the structural funds at this stage. That is only appropriate given the economic position of Scotland relative to that of the new member states. I believe that it is therefore even more important that we look at where the structural funds can add value to existing public sector funds, and I do not believe that that has yet been properly analysed.

Thirdly, if there is less money, it seems perfectly obvious that we have to target much more tightly, either geographically or thematically. It seems illogical that the Executive is proposing to extend the eligible areas for the structural funds to include those parts of Scotland that have not previously been eligible or those parts that are currently in transition.

Fourthly, the structural funds have always been about market failure. If we lose that aspect, we will

fail to get a balance between creating jobs and tackling the needs of people outside the labour market and in communities that are suffering from high levels of unemployment.

Currently, the priorities are too focused on the Executive's broad, strategic priorities, although I note that the regeneration statement has not yet been included in the initial proposals, which would be a useful way of ensuring that the funds are targeted. I do not believe that enough has been built in from local authority, community planning partnership, further education and other strategies that deliver the Executive priorities at local level.

I do not believe that there is any evidence that the proposals for the new management system of co-financing would lead to improvement. There has been no analysis of the pros and cons of the current system. We certainly need to look for ways of improving the current system—I suspect that none of us would deny that—but the analysis so far has not been about what works and what might not work in the current system. It has been looking elsewhere and trying to bring in a system from another country.

**Donald MacKinnon (South of Scotland European Partnership):** I am from the south of Scotland objective 2 programme. I will add to what Laurie Russell has said by carrying on in the same vein. I recommend that the committee consider a slightly broader perspective than it is currently being asked to consider, looking at present structures and at proposals for the future. The European social fund has been with us since 1958 and the European regional development fund since 1975, and those funds have been active in Scotland since 1975. During that time, the delivery mechanism for both funds has changed as the priorities that the European Union seeks to deliver have evolved in line with national programmes at United Kingdom or Great Britain level, as well as in line with Scottish priorities. It has always been a balancing act to find the right emphasis on national priorities as opposed to regional priorities.

My first involvement with structural funds was as an applicant to a European social fund programme that was managed from Sheffield on a GB basis when the Manpower Services Commission was there. In the 1994 to 1999 programme, we had the European social fund and the ERDF delivered together through individual programmes, either in areas of industrial decline under objective 2 or in rural areas under objective 5b. At the same time as the European social fund was delivering to regional priorities, there were also GB programmes for which there was a Scottish allocation.

At the early part of that programming period, we had something that was very close to what is now called co-financing, because the Scottish

allocation was split between the Convention of Scottish Local Authorities, the Scottish Council for Voluntary Organisations, further education and Scottish Enterprise. However, at a time when social funds started to be directed at training in the workplace instead of at training the unemployed, there was an objective 4 GB programme in which the Scottish allocation was managed by Scottish Enterprise on a co-financing basis. I do not know whether that co-financing system was formally evaluated, but it was replaced in 1998 by the programme management executive that preceded the objective 3 PME. We have been here before. In the 30 years of the ERDF—which, after all, stands for the European regional development fund—it has always had a regional focus.

I have circulated to members a map of the priorities in the 2000 to 2006 programme, which clearly shows the full objective 2 level of assistance available in industrial and rural areas in the north-east and the south of Scotland.

**Christine Mulligan (Objective 3 Partnership):**

As Donald MacKinnon said, the Objective 3 Partnership was the most recent PME to be set up. The PME was established in 1998 in preparation for the 2000 to 2006 programme. Unlike the objective 2 programme, the objective 3 programme covers what is now called lowland and upland Scotland—which means everywhere apart from the Highlands and Islands.

I have to disagree with the claim that one cannot deliver structural funds nationally and still address the specific needs of certain communities. The objective 3 programme has so far been very successful. It has committed almost £340 million and has helped more than 250,000 people into training and work.

The Objective 3 Partnership also administers the support unit for the equal community initiative. Although the programme is not very big—it accounts for only £23 million—any review of structural funds should consider what the programme has been able to deliver with a relatively small amount of money and with a structure that is totally different from that of any current structural fund programme. Moreover, as the initiative extends into the Highlands and Islands, it shows how good practice and innovative work can be transferred between rural and urban areas and thematic groups.

**Gordon McLaren (East of Scotland European Partnership):** I am the programme director for the east of Scotland objective 2 programme and the chief executive of the East of Scotland European Partnership. As well as managing the 2000 to 2006 programme, the partnership also managed the 1994 to 1996 and 1997 to 1999 eastern Scotland programmes, which covered the east central belt from Arbroath in the north to the

Lothians south of Edinburgh. However, in the 2000 to 2006 programme, the territory was extended to cover the former objective 5b programmes in north-west Grampian, rural Stirling and upland Tayside.

Because those programmes and partnerships were substantially rural, the transition was difficult in the early days. Indeed, back in 2000, there was much debate—certainly within the committee—about how to manage relationships in a new programme area and in a new partnership that was fundamentally geared towards rural development.

Our programme management executive has worked very hard to mould and merge the wider partnership into the East of Scotland European Partnership. I would say that our partners in the north-east and rural areas are now among our strongest supporters. A balance needs to be struck between urban and rural areas because they have different characteristics, needs and opportunities.

Future programmes need to evolve. There has to be clear and fundamental change. We are looking at a vastly reduced structural funds pot, so we need to look afresh at what is possible and what we need to do in the future programmes.

Major innovations in managing structural funds are coming in from the Commission. There are also limitations such as the very difficult boundary issues that we have had in the current programme. The east programme area has had a nightmare with boundaries. We have to use a postcode database to advise partners and beneficiaries whether they are eligible, transition or non-eligible.

The benefit in the future is that there will be no geographic zoning as far as the Commission is concerned. Any spatial targeting—I agree with Laurie Russell that there has to be targeting, whether it be spatial or thematic—needs to be done intelligently and take account of differing needs, but we should consider a balance of need and opportunity when we consider how we invest in the Scottish economy. That is key.

14:15

**The Convener:** Can I ask you to wind up? I know that you are right into your subject, but time is moving on.

**Gordon McLaren:** Thematic areas in the east are what we call designated strategic sectors such as biotechnology, life sciences, creative industries, digital media and food and drink, and they will all need to feature in the thematic areas of priority in any future programme.

**The Convener:** I have a couple of things to say before I open up the meeting to questions from

members. The purpose of the inquiry is to report on the Scottish Executive's plans for the implementation of the structural funds programme; it is not for us to decide what that should be.

I have belated apologies from Mr Jackson, whose car has broken down on the M8; he is waiting for the breakdown recovery service.

**Irene Oldfather (Cunninghame South) (Lab):** I thank all colleagues for their introductory remarks. You bring a huge amount of collective experience to the committee today and I want to capitalise on that and pick your brains a little bit. I know that in the past, you have been kind enough to come along to the committee and inform its deliberations.

That being said, this is quite a huge task for us. I will start off by trying to tease out whether you accept that, given the reduction in money, there will have to be a change in operation. If we can establish that you accept that there has to be a change, perhaps we can look at some of the suggestions that different people around the table have proposed. For example, I am particularly interested in targeting based on the Scottish Executive regeneration statement, which Laurie Russell and Gordon McLaren mentioned, although we do not have that statement yet.

Do you accept that we have to change?

**Laurie Russell:** I suspect that we all accept that there has to be change, but let us not use a reduction in the structural funds as a pretext for centralisation—that is my warning. I think that that is what is behind some of the co-financing suggestions that the Executive has made. It is not showing any proposals to us in any detail, so I am not aware of the detail, but from discussions that have been held, it seems that the co-financing bodies that are in discussion with the Executive are quangos or central Government agencies. The current programme allows a much more partnership-based, bottom-up approach, whether on the basis of regions or across the wider objective 3 area. We need to think about change, of course, but let us build on success and look at ways of improving performance where we can.

**Gordon McLaren:** Change is inevitable, however we look at it, and there is a need to look again at the current arrangements. There are certain fundamental principles derived from the Commission that we have embodied in a very significant way in Scotland and the Scottish experience. One of those is partnership, which has worked well. We are held up throughout Europe as a model for partnership working. Whatever happens and however the map of geographical and spatial targeting looks in future, there must remain a key role for partnerships, including sub-regional partnerships.

Scotland is not a large country, although we tend to portray it as a large and disparate territory. There is currently considerable debate around the concept of metropolitan regions, but in the European Union context our only city regions are Glasgow and Edinburgh. However, places such as Aberdeen, Dundee, Perth, Stirling and Dumfries have a role in the city region concept, because the travel distances are not great. We need to consider better transport and communication links.

Such matters should be factored into future arrangements. For example, the current east of Scotland area will not necessarily have a logic and coherence in any future arrangements, even though the current arrangements work. There is an opportunity to consider how different parts of the country—city regions and sub-regions—can work more effectively in the context of key investment in the Scottish economy.

**Dennis Malone:** Scale is an issue, as an example that I have used recently demonstrates. The proposed figure for regional development funds for Highlands and Islands is £75 million, but in the current programme we committed £55 million to transport infrastructure alone.

The other factor for the Highlands and Islands is that in the two previous programmes we operated the four funds as part of an integrated package. The new arrangements involve two separate regional programmes and two national programmes, for agriculture and fisheries, so integration is an important issue in the delivery of added value. The issue is serious, given the importance of the primary sector in the region.

**Donald MacKinnon:** I think that we all accept the need for change, but our plea is for evolutionary change rather than change that has unintended consequences and seriously damages the partnerships of regional players that have been built up. Community planning partners in different localities have bought into the process and spent significant, uncoded resources by committing time to monitoring committees, management committees and advisory and thematic groups, to make the approach work.

**The Convener:** Does Christine Mulligan want to add to that?

**Christine Mulligan:** No. I will not take up more time.

**The Convener:** You are the only person who listened to what I said at the beginning of the meeting.

**Irene Oldfather:** As the convener said, the committee has been presented with the Executive's view of how matters are shaping up. However, those of us who have been involved in European structural funds acknowledge—as does

the Commission—how well the partnership model has worked in Scotland. It is probably one of the best models in Europe.

However, as the convener said, we are where we are. Christine Mulligan said that a national programme does not necessarily have to be a centralised, top-down operation. The witnesses are putting forward important and positive ideas about community planning partnerships, regeneration, city regions and so on, which we could perhaps start to build into our models.

Every answer that has been given has raised more questions—I could ask questions all afternoon. How can we put in place a more bottom-up approach in the structure that has been imposed on us? Gordon McLaren mentioned some ways of doing that and other witnesses might have ideas. What do you feel about community planning partnerships? Would that model work alongside what Laurie Russell said about the Scottish Executive's regeneration statement? Is it too early to say? Is the implementation of community planning partnerships too varied across geographic regions?

**Laurie Russell:** It is early days for community planning partnerships. My knowledge of western Scotland suggests to me that the situation is quite varied. However, they are a model that is bringing together agencies at a local authority level. It is not a delivery model, of course. It is important to get the strategic discussions through community planning partnerships. However, quite small-scale organisations, such as local development companies, voluntary sector organisations, colleges and so on, are still needed to deliver projects locally. All that happens within the broad context of Scottish Executive strategies and community planning partnerships. That is how it has worked in the past. In my 17 years in western Scotland, no project has been turned down by the minister or the advisers to the minister. That means that you can assume that everything that is currently funded is absolutely in line with Executive strategies. However, the delivery issue is important. We need to think about how that works at a local level.

**Irene Oldfather:** Who could drive that at that decentralised level? If that were not done by community planning partnerships, would it be done by local authorities? At the end of the day, are we going to have to say that we need all of you again? Is that where we are going? Are there any other implementation or delivery mechanisms?

**The Convener:** I will bring in Christine Mulligan at this point. She has been waiting patiently.

**Christine Mulligan:** I echo what Laurie Russell said about community planning partnerships. In

theory, they are the ideal bodies in this regard. I mentioned earlier that the eco-community initiative brought in quite different processes. One of the fundamental differences was that it sought development partnerships to deliver on a thematic basis. Initially, those development partnerships were fraught with difficulty and various organisations vied with one another to see who was going to lead on an issue because no organisation wanted to put itself in the firing line.

Now, as we progress into the fifth year of the eco-community initiative, we find that development partnerships have taken on a role for themselves. They are representative of the major sectors and the delivery organisations. The fact that people who are involved in delivery are able to lead the development partnerships makes a difference. It is not always the council or the college that leads but whoever is best suited to do so or has the most expertise in that area. That is one of the ways in which we should work. We should not simply bolt on structural funds to community planning partnerships because they are there; we need to consider the expertise within those groups.

**The Convener:** Unless anyone on the panel fundamentally disagrees with what Laurie Russell and Christine Mulligan have said, we will move on.

**Dennis Canavan (Falkirk West) (Ind):** Do any of you have thoughts on the potential for accessing European Union funding under the new co-operation agreement, which will replace Interreg next year? I am thinking in particular of a cross-border co-operation programme with the Republic of Ireland, which could involve Northern Ireland as well.

**Donald MacKinnon:** There have been initial meetings between Scottish Enterprise and Scottish local authorities in Scotland and their equivalents in Northern Ireland and the area immediately to the south of the Northern Irish border. The last meeting that I heard about took place in Larne last month. I have not seen the minutes of it and I do not know what decisions were made, but I know that preliminary discussions are taking place. South Ayrshire Council and North Ayrshire Council were at the meeting and I think that Inverclyde Council was, too. Unfortunately, I could not make it that day, so I have only second-hand knowledge of the meeting.

**Laurie Russell:** Over the past four or five years, organisations, particularly in western Scotland, have been involved in what are called twinning covenants. That is not a particularly good title, but the idea is that we share expertise with the accession countries, some of which have since become new member states. We and other agencies that deliver structural funds have been involved in a number of contracts with equivalent

agencies in a number of the accession countries and new member states.

The scope is huge and the difficulty is that we have to ensure that the process is not a loss-making one, even if it is not commercially viable. That is quite hard to do. In other countries, organisations that are doing that work get subsidy at least to pay some of the costs. We are not trying to compete with private consultants; we are trying to develop relationships that will be good for Scotland's economy, culture and political scene in the long-term.

The theory sounds good, but it is difficult to deliver all that in a way that does not cost us resources.

14:30

**Dennis Canavan:** If such a programme of co-operation with Ireland and Northern Ireland came about, would it be reasonable to think in terms of Scottish representation on the Special EU Programmes Body, which is based in Belfast and was set up by acts of Parliament in London and Dublin?

**Laurie Russell:** That seems to be a perfectly reasonable suggestion. The idea of co-operation programmes is that various regions and member states should work together because their doing so has a knock-on economic benefit, which needs to be the focus of programmes. We need to be aware of the danger of spending too much time on such matters without getting results for Scotland. At the end of the day, we should be creating the right environment for businesses to work together, as well as enabling public agencies, politicians and so on to co-operate.

**Dennis Malone:** The partners in the Highlands and Islands have been involved in a project called the northern periphery programme, which is funded through Interreg and has been extremely successful in introducing new partnerships between Scottish organisations and Swedish, Faroese and Norwegian bodies. That programme is significant. In fact, someone from the Scottish Executive chairs the monitoring committee.

**Bruce Crawford (Mid Scotland and Fife) (SNP):** There seems to be a problem in relation to core financing versus challenge funding. From the papers that have been submitted and from what I have heard today, it seems to me that challenge funding has helped to deliver some innovative projects and has allowed the development of smaller projects that might not otherwise have got through. We have had good value from that. The suggestion is that to move away from that will put us in danger of throwing the baby out with the bath water.

Earlier, we heard evidence that challenge funding can be cumbersome and that it creates administrative burdens that are a damned pest, especially if a bid is unsuccessful. We have heard that co-financing might cause problems and that not everything is working. I am particularly concerned about Strathclyde European Partnership's view that

"There has been no clear explanation by the Scottish Executive of what a system of 'co-finance' would look like and mean for Scotland".

If I understand the situation correctly, there is a move from challenge funding—which gave us problems as well as benefits—to a new system that has not been properly explained to anyone. Is that the position?

**Dennis Malone:** That is probably the view of the people who are here today.

Co-financing is one, but not the only, delivery model. The key is to ensure that we get the correct projects under way, that they are supported by structural funds and that we then reach a determination about how those projects are funded. Some funding might come from co-financing and some might come from some sort of challenge funding. Some might also come from direct finance. There has to be a mix of sources from the range that exists; we have introduced one or two such innovative ideas in the current programme in the Highlands and Islands.

**Laurie Russell:** Like Dennis Malone's organisation, the SEP has found innovative ways of managing parts of the programme. In western Scotland, we have what we call key funds, which are for small-scale projects for community groups and operate to a maximum of €50,000, or £30,000. Local authorities provide co-financing, so applicants have, in a sense, 100 per cent funded projects. Key funds have been evaluated by independent consultants and are working extremely well. For small-scale community-based projects, the decision making is devolved to sub-regional level throughout Strathclyde and it works well. There are different ways of managing funding.

The consultants that the Scottish Executive asked to consider co-financing were not asked to consider the current system. That is something that we should do—we should examine the current system and find out whether aspects of it in different parts of Scotland can be replicated elsewhere. The consultants suggested that we consider a model in which wider strategic decisions are taken more broadly across Scotland or at regional level, but in which smaller-scale decisions are devolved to the local level. There are some attractions in that model.

**Donald MacKinnon:** Of all the submissions that the committee has received on the draft NSRF, there is only one that speaks favourably about co-financing, as it has been explained. There are many that say, "We really need to understand more about the detail of what's being proposed in order to understand whether it would deliver." Others say, "We don't think it can work on the basis of what's been explained." As I said earlier, something close to co-financing has been used in the past for delivery of the European social fund. I can see some attraction in that if a national priority were set such as existed then, which was to reduce unemployment.

Christine Mulligan is able to say that the objective 3 partnership has delivered successfully to the regions because there is a relationship between the objective 2 programme and the objective 3 programme, in which the three objective 2 regions have set regional priorities that the objective 3 programme is then able to focus on in scoring projects. In the absence of an equivalent of those regional programmes, it is much more difficult for a lowland and upland Scotland programme to deliver for the region. Much depends on the detail of how much regional analysis and how much differentiation there is between the socioeconomic circumstances of different areas and different regions.

**Christine Mulligan:** The challenge funding has not only been successful for small projects. The objective 3 programme has funded a number of national—particularly Scottish Enterprise—projects, which have been delivered throughout the local enterprise areas. It is difficult for me to see where the key differences would be between Scottish Enterprise bidding into challenge funding and going through the same appraisal process as any other project, and Scottish Enterprise being one of the co-financers. There can be a halfway point—national programmes can still go through, but more comparison could be made with other projects. In particular, duplication and delivery in certain areas could be considered, where there is perhaps overtargeting of certain groups in certain geographical areas.

One of the challenges of the programme has been to balance national programmes with local delivery projects to ensure that all bases are covered. We can do that without necessarily co-financing as we know it at the moment. I agree with Bruce Crawford's initial comment. We are not really fully aware of any other alternatives and we have had to go with the various models of co-financing with which we are familiar. Unfortunately, they have perhaps tainted our view slightly.

**Gordon McLaren:** We talked about the inevitability of change. We are potentially looking at a hybrid model. For me, such a model can work if it is based on partnership.

I am not opposed ideologically to co-financing, or whatever it is called. As Dennis Malone said, through the current programmes and the work of the PMEs, we have from time to time commissioned project activity if a programme is underperforming in certain areas. The way in which we deliver current programmes has a rationale and logic. At present, priority 1 in the objective 2 programmes is on support for small and medium-sized enterprises and is delivered largely through Scottish Enterprise and the enterprise network. The future priority 1, as it is described at present, will be based on the competitiveness objective and on support for SMEs on innovation and risk capital. Again, the main stakeholder and delivery agent in that will be Scottish Enterprise.

We talked about the administrative burden and the so-called bureaucracy of structural funds. We have worked hard to reduce that burden and we have an opportunity to reduce it further by saying to stakeholders such as Scottish Enterprise that we will give them a proportion of the funds—although not the total allocation—to deliver the targets on supporting SMEs throughout Scotland. That makes sense and would be an innovative approach, although it would be an evolution of what we do in present programmes and of what we have done previously.

Ideologically, I am not opposed to co-financing, but it must work through a partnership process. Everyone will have to sign up to the proposals for delivery of programmes and agree that they make sense. All the partners will have to agree on the key strategic targets and objectives and on what the programmes seek to do. The new programmes will be based largely on the Lisbon agenda and so will be about competitiveness. Support for SMEs will be central to that, although we will still have a big regeneration priority behind that. We must recognise that certain Scottish institutions will have a key role in delivering the future priorities.

**Bruce Crawford:** That is useful. The witnesses have talked about different systems, mixed bags and hybrid models, but those normally mean increased administrative costs to me. A single co-financing model might, on the face of it, save cash and reduce the administrative burden, which is important as there will be less money. I want you guys to convince me that that is not the case, so that I understand the arguments.

**Laurie Russell:** I can provide comparisons on value for money and timescales that come out of work that the Scottish Executive initiated on the programme management executives at the beginning of the present set of programmes. The two easiest ways in which to consider the bureaucracy of a system are the timescale within which applications are processed and the cost of

that. The timescale to which we work is 16 weeks from an application's coming in, to a decision. The other programme management executives have roughly similar timescales. Scottish Enterprise has a 35-week internal timescale for decisions about projects and the Heritage Lottery Fund advertises a 96-week timescale, which is six times longer than ours.

Costs among the PMEs vary slightly. In western Scotland, the administrative costs are 3.5 per cent of the total value of the programme. Half of that comes from the European Commission and half comes from what we call voluntary management contributions from bodies in Scotland. That is the lowest percentage that was found in Scotland for lottery or other funding agencies. The consultants also carried out a comparison with the Welsh European Funding Office, a Swedish programme and the Heritage Lottery Fund. The current system provides value for money and gets a good response from partners on levels of satisfaction.

**John Home Robertson (East Lothian) (Lab):**

Mr McLaren talked about the complicated boundaries. I am grateful to whoever gave us the revised structural funds map, which shows the transitional areas and objective 2 areas. The map illustrates Mr McLaren's point in a rather worrying way and also confirms what I have always known, which is that the system is a wicked conspiracy to deprive my constituency of support from anybody.

I apologise to colleagues who have heard me make this point before, but there are pockets of deprivation in areas that superficially seem to be rather prosperous. It is a bit difficult to defend a situation in which a deprived and depressed former mining village in the coalfields cannot get support because it is just on the wrong side of a line that somebody has drawn on a map. Surely the creation of a lowland area will allow more joined-up thinking to ensure that such places can get support. Yes or no?

14:45

**Christine Mulligan:** The current objective 3 programme covers all such areas. There is only one measure in the programme that is specifically targeted on the postcodes that Gordon McLaren referred to.

**Gordon McLaren:** We have spent a huge amount of time on the administration that is involved in simply advising partner organisations on whether they are eligible. On the map, we can see the Highland boundary fault, east of which there are transition areas and then ineligible areas before we come across to the central belt and the Moray firth.

Businesses do not understand it when, as sometimes happens, a boundary goes through an

industrial estate and some businesses are eligible for additional assistance and others are not. They do not understand it because there is no logic to it. That sort of thing will disappear except in cases when the Scottish Executive and others will, in the future, set boundaries for city regions or whatever. The Commission imposed the map, but is now saying that it does not make sense. For me, a business is a business, whether it is based in Edinburgh or Aberdeen or Dumfries, or whether it is in an eligible area or a transition area, and we can assist it by growing the economy.

**John Home Robertson:** We know that we will receive a lot less money—there is no avoiding that—but we have opportunities to make what money is left work more efficiently. That is what we hope to do, is it not?

**Gordon McLaren:** It is for us collectively—the Scottish Executive and the wider partnerships—to determine the priorities and to maximise the impact when we invest the reducing structural funds.

**Donald MacKinnon:** Whenever lines are drawn on maps, some people will inevitably fall on the wrong side of them. However, I defend geographical targeting. Structural funds, especially ERDF, are primarily about increasing gross value added and gross domestic product in areas where they are relatively low. That focus is correct. We should not spend structural funds on further investment in the economy. There are poor areas in the north-east of Scotland, as the map shows, but if we consider overall GDP, it is something like 136 per cent of average GDP in the EU 15. In other areas, the GDP is less than 75 per cent of that average.

The profound question relates to the extent to which we should target structural funds on helping poorer areas to increase their economic performance, and the extent to which we should increase the scale of difference across regions in Scotland.

**Laurie Russell:** I would like to emphasise the point about targeting. We have to accept that, because the funds have been reduced, we must target them more carefully. That can be done spatially or geographically, or it can be done on certain themes. I am going to disagree with Gordon McLaren: I do not think that the structural funds were about offering the same service to every business everywhere in Scotland. Until now, they have been about offering businesses in certain parts of Scotland that have been lagging behind—whether those areas were rural or urban—additional support. If the Scottish Executive wants to change that, that will be fine, but there will be far less money available to spread around and the areas that are doing well economically will inevitably pick up more of the funds.

We know that in projects such as the Scottish co-investment fund, which is a Scottish Enterprise fund for the whole of Scotland, businesses in Edinburgh take by far the largest proportion of the funding. If that is what is wanted, that is fine. However, until now the structural funds have been about targeting the regions that have lagged behind and I think that that should continue because businesses in some parts of Scotland do not need public sector support to thrive; they can access the private markets and grow in that way. There is a strong case therefore for continuing to target businesses. We just have to accept that if we draw lines on a map some people will unfortunately lose. However, we are most interested in those who gain.

**John Home Robertson:** I am being provoked, here.

**The Convener:** Do you wish another minute in which to be provoked? I am not going to let you back in otherwise.

**John Home Robertson:** Let us not make a meal of it, but there are parts of Strathclyde that are relatively well off. Equally, there are parts of Edinburgh and the Lothians that are seriously economically depressed. We have lived with that situation until now. Businesses that happen to be located in the Lothians have had to do without, while everybody in Strathclyde has had access to structural funds. Surely we have an opportunity now to target things more fairly around the country.

**The Convener:** I will allow a quick comeback because I do not want to end up with a spat between Gordon McLaren and Laurie Russell, with John Home Robertson as the referee.

**Gordon McLaren:** My comment about the location of businesses is still relevant, but I was talking particularly about thematic targeting. Let us leave geographic targeting to one side. Thematic targeting allows us to target businesses in strategic growth sectors such as biotechnology and the life sciences. We should not say to a business that is based in the centre of Edinburgh that we cannot give it assistance, while we tell another that is based elsewhere in the Lothians that we can assist it. That should be the same for renewable energy businesses within and outwith Aberdeen city. Businesses cluster where they need to be commercially and for access to research facilities. We must bear that in mind. It is not about getting into boundary issues.

**John Home Robertson:** I am happy with that.

**Mr Jim Wallace (Orkney) (LD):** I want to go back to a point that Bruce Crawford made earlier on administration costs, to which Laurie Russell helpfully responded. It appears to me that one of the drivers for reducing the number of partnerships

that we have now in non-Highlands and Islands Scotland to two—one upland and one lowland—schemes is administrative costs. Does Laurie Russell want to venture a comment on that? We heard that the figure of 3.5 per cent for administrative costs is probably better than that for many comparable organisations. Could that be driven down even further to release more money for an organisation's primary purpose, if we were to accept what the Executive seems to be proposing?

**Laurie Russell:** If there is a case for reducing administrative costs to allow more funding for projects, we should consider it, but there is a balance to be struck, involving appropriate support for project applicants. The structural funds have been good at ensuring that voluntary and community groups, and other agencies whose staff may not have a great level of sophistication, are given support by our staff to think through how a project application should be developed.

I suspect that Dennis Malone will make the point about geography, which is that if we are to cover an area as large as the Highlands and Islands is, we need staff who can travel to different parts of that area. Across the programmes, our staffing levels are not high, but it is necessary to have staff with certain skills. Because of the range of activities that the structural funds support, we need people who understand physical regeneration, business support, training, environmental issues and so on.

Of course we should look for value for money—nobody would deny that—but a balance must be struck to avoid going too low in administrative costs.

**Dennis Malone:** We should not lose sight of the fact that the regulatory framework as required by the Commission will not change. We will still be subject to audit and tests on value for money, and we will still be asked for this, that and the next thing by the Commission. My one concern is that co-financing is presented as a wee bit of a carrot, but some of the organisations that regard co-financing as an opportunity have not yet recognised the financial cost of managing co-financing in their own organisations.

We have a certain level of skills in the existing PMEs and I think that it would be wrong not to seek to maximise or continue to use those in the best way possible.

**Gordon McLaren:** The other thing that must be borne in mind about costs under the existing model or arrangements is the degree of added value that we provide to the wider partnership. We undertook an exercise at the end of last year with the Scottish Executive to consider that in detail. I will give an example. The work that we have done

collectively in Scotland on mainstreaming the horizontal themes of sustainable development and equal opportunities is held up as a model throughout Europe. It is important not to lose that legacy in delivering structural funds in the future. The Lisbon agenda is not the only issue—the Gothenburg agreement on sustainable development will feature strongly in any future structural funds programmes.

**Donald MacKinnon:** There will be additional costs in setting up a new structure because the five current programmes in Scotland will not close until June 2009 and the committees that are involved in managing those programmes—at least the monitoring committees—will meet until June 2009. The claims and monitoring process will be serviced and managed, and the current working assumption is that the five PMEs will do that. The costs of any new structure will therefore be in addition to the costs of that process. Costs will not suddenly be done away with.

**Mr Wallace:** I want to move on to another issue that has been discussed, but on which I would like greater clarity. We have heard about the importance of targeting. Laurie Russell talked about geographical and thematic targeting. To what extent is the situation an either/or situation? Would taking both approaches dilute the funds' impact too much? If there was geographical targeting—sub-regional partnerships have been mentioned—would you envisage particular areas being identified? Donald MacKinnon might wish to point out that if Scottish Borders and Dumfries and Galloway were a NUTS II area, they would almost have qualified for statistical effect funding. Could such a system be operated with areas that could readily be identified below the overall upland and lowland area?

**Donald MacKinnon:** I am delighted that Mr Wallace made that point about NUTS II because he has saved me from making it. The process of developing and delivering the programme has caused people in the Scottish Borders and Dumfries and Galloway, through considering areas on the basis of their socioeconomic characteristics, to realise the similarity of the issues that they face. Those local authority areas may be overdependent on certain industries; both areas urgently need to diversify their economies. Whether the distinct geographically spatially defined area of Dumfries and Galloway and the Scottish Borders should be focused on as a priority sub-regionally depends on how the Scottish Executive intends to target spatially. The Commission's guidelines clearly expect programmes to take cognisance of spatial cohesion issues, but the Scottish Executive's intentions have not been made clear.

**Christine Mulligan:** In the light of the experience of the current objective 3 programme, I

think that the new programmes will probably need to combine thematic and geographical targeting. The current ESF main priority is inactive individuals; the second main priority is upskilling people who are in work and growing them into better jobs. I do not think that that can be done on a geographical basis, although I accept the ERDF priority and that there is perhaps merit in some geographical targeting.

The only other comment that I would make on thematic targeting is that, in targeting a host of groups, the current objective 3 programme has been too wide, which has probably led to the funds being spread a bit thin in certain areas. Although it might be difficult to carry out specific targeting at this stage, it will inevitably be better to do it now, at the start of a new programme, than to narrow down the options halfway through it.

15:00

**The Convener:** Are you content with that answer?

**Mr Wallace:** Yes.

My final question is about an issue that has been raised in evidence to us—the uncertainty that is still in the air about the new scheme that will come into operation at the end of this year or the beginning of next year. From your experience in your areas, is there a sense of being in limbo or are proposals for projects still being made, albeit that you are not quite sure how they might be financed? Will we find ourselves having to wait 18 months before a new system cranks up again?

**Dennis Malone:** In the Highlands and Islands, more or less all of our ERDF money has been fully committed. We are already talking to people about new projects, but all that we can say to them is that we do not know what the arrangements will be or even what the priorities for the new programme will be. There is a sense of being in limbo. People do not know when the new programme will start. Some have suggested that it will start on 1 January; others have suggested that it will be spring 2007 before it gets going. All I can say to people is that they should keep watching the press.

**Laurie Russell:** There is definitely a sense of being in limbo. We know from our experience of the same stage of previous programmes that there is usually a gap between one programme closing and a new one starting and that, as one might expect, some organisations are particularly vulnerable at that stage. The change between the current programme and the new programme will probably be the most significant change in the structural funds that there has ever been. Some activity will not be funded in the future and, as one might expect, the financial planning of some

organisations is better than that of others. Some organisations are knocking on the doors of the Executive, local authorities and other bodies in a bid to find replacement funding.

The other change is that all the planning for the new programme is being done in-house by the Scottish Executive. With previous programmes, the planning process was more participative and inclusive in that it involved, for example, local authorities, further education institutions and the voluntary sector. The committee will know from the evidence that it has received and from the evidence that has been submitted to the national process that a number of sectors feel that they are being excluded from the discussions. That is making the situation a bit worse this time round.

**Christine Mulligan:** The majority of objective 3 projects will complete at the end of this year, although some will run into 2007. We have committed all the funds, so no more funding is available for existing projects. More than 30 per cent of the funding for the present programme has gone to the voluntary sector and there is a big concern—which we hear every time we are with our partners—that capacity will be lost between the end of the present programme and the beginning of the next one.

Our committees are doing what they can. At the end of the previous objective 3 programme, it was possible to use underspends from the programme to prolong projects. We will consider doing that again, but we are fairly limited in what we can do if the gap between programmes is significant.

**The Convener:** Perhaps Donald MacKinnon has something to add.

**Donald MacKinnon:** Laurie Russell made the points that I wanted to make far more eloquently than I could have done.

**The Convener:** Oh, well. That is praise indeed.

**Phil Gallie (South of Scotland) (Con):** My question follows on from those of Bruce Crawford and Jim Wallace. I think that Mr Russell said that admin costs for the funds were running at 3.5 per cent. Does that figure relate to the administration of your organisation or does it take into account the administration costs of all the partners that are associated with the various projects? Can you give an overall percentage spend on administration?

**Laurie Russell:** I was referring only to the costs of our organisation in relation to the total value of the structural fund programmes. I could not give you a figure that adds in the administrative costs of all the organisations that make applications, submit expenditure claims and gather the monitoring information that we include in annual reports for the European Commission. In broad terms, I suspect that the figure would probably be

double in that case, although I do not know. I cannot give you an accurate figure, and I do not think that anybody has calculated it.

**Phil Gallie:** I also had in mind such organisations as Scottish Enterprise and local authorities, which are on the periphery of the process. I wonder if there is too much of a proliferation of involvement in the distribution of funds.

**Laurie Russell:** Structural funds are not the only economic development funding that is available. Normally, a local authority or college will have one individual or a small team whose job it is to seek external funding. Part of that will be European funding, but it might also be a matter of seeking funding from the national lottery or other external sources. That is the nature of many organisations now. They will have small teams of people who do that job. Most organisations accept that that forms part of what they do. Sometimes, that will include developing public-private joint ventures; in other cases, it will simply involve seeking external funding from various sources.

**Dennis Malone:** As far as the administrative budget of my organisation is concerned, we take about 2 per cent of the total assistance that is available under the programme. The budget is set by the board. Like every organisation, we are required to seek best value and reduce costs at every opportunity. We have significantly driven down the administrative costs of the programme over the past five years.

**Phil Gallie:** Referring to that figure of 2 per cent, you mentioned that your current annual administration costs are £620,000. Will that cost reduce substantially as the funds reduce in the future?

**Dennis Malone:** I suspect that it will reduce. We are perhaps looking at a reduction in overall staff costs. Staff costs make up the vast majority of our expenditure, and we can consider reduced costs there.

**Phil Gallie:** I will ask Mr Russell about a totally different issue. In your written submission, you stress the view that structural funds should not be

“split evenly between ERDF and ESF”

in the future, and that there should be a concentration

“in favour of ‘competitiveness’ (ERDF) activities”.

From some of the things that you have said, I gather that that is not, in fact, quite how you see it.

**Laurie Russell:** I am not sure that I did express that view.

**Phil Gallie:** I might have got the wrong body. In front of me is an appeal to the convener headed

"Response by West of Scotland European Consortium".

**Mr Wallace:** That was to the Department of Trade and Industry rather than to us.

**Irene Oldfather:** It relates to the balance between ESF and ERDF.

**The Convener:** That consortium is separate from Mr Russell's organisation.

**Laurie Russell:** That is the local authority consortium in western Scotland.

**Phil Gallie:** In that case, I will rephrase my question. Does your view differ?

**The Convener:** So Phil Gallie's question is now, "Do you agree with the West of Scotland European Consortium?"

**Laurie Russell:** I tend to think that a 50:50 split between ERDF and ESF is about right. The structural funds aim to achieve a balance between support for infrastructure, support for businesses and support for people. Those are the three fundamental parts of economic development. The costs of the current objective 2 programme are roughly split into thirds in that respect. Objective 3 exclusively relates to training and support for people, although that covers people who work in businesses as well as people outside the labour market. In broad terms, there is a 50:50 split at the moment, which I think is about right.

The local authorities take the view that slightly more should go on the European regional development fund, to ensure that more investment is made in infrastructure.

**Phil Gallie:** I am interested to know that. I want to ask your colleagues about that. Does everybody support Mr Russell's view, or are there different views on the issue, bearing in mind the fact that, if economic development is enhanced, there will inevitably be a spill-over to support social aspects?

**Donald MacKinnon:** My preference would be for a leaning towards a greater amount of ERDF than ESF in addressing our priorities. I am not arguing against ESF being targeted at upskilling the present workforce and helping it to increase its average qualification level. The question is how we do that, where the delivery should be and whether that or investment in premises in which people with higher-level skills can make their living is the more urgent need. From a south of Scotland perspective, the more urgent need is to invest in infrastructure. I am not saying that investment in people is not absolutely necessary, but it is a secondary priority.

**Christine Mulligan:** I disagree, of course. I think that the 50:50 split is reasonable. At the stakeholder events that were held earlier this year,

there was discussion about whether people were being trained to move into high-level skilled jobs. I do not think that ESF is going to do that; it is going to target the inactive. The figures at the moment show that we need to target those people or else they will not move into the lower-level jobs that other people vacate.

The initial figures that we have seen would maintain the current levels of activity. Although ESF would be reduced, there would still be significant amounts of it around. However, I would not support it being any less than 50 per cent.

**Mr Charlie Gordon (Glasgow Cathcart) (Lab):** My question is for Mr Malone. Mr Russell impressed me with the figure of 3.5 per cent expenditure on admin costs. He said that that was a pretty impressive percentage compared with some that he could mention. You then gave the figure of 2 per cent. I am sometimes too fast a listener, but it seemed counterintuitive that Laurie Russell could get admin costs down to 3.5 per cent of programme value in an essentially urban city region and that you, with the most rural and scattered partnership of the lot, could duck under that. You then said that the cost was 2 per cent of the technical assistance budget. Are we comparing like with like? I am trying to compare what you said with what Laurie Russell said. Can you help me to do that?

**Dennis Malone:** We have a much smaller programme, so we can draw down much less in the way of technical assistance. The amount of technical assistance that programmes can draw down is specified in the financial table. About 3 per cent of the value of the programme is available for technical assistance.

**Mr Gordon:** It could be argued, however, that bigger programmes should be able to make economies of scale.

**Dennis Malone:** Perhaps that is the case. We have staff in Stornoway and Lerwick, which reduces our transport costs because other staff do not have to go back and forth to the Western Isles or Shetland. We have also made significant changes in our staffing structure, taking on board family-friendly policies and reducing the number of working hours to reduce the overall complement to about 10.5 full-time equivalents. We have driven down the overall running costs of the programme management executive over the past few years.

**Mr Gordon:** I shall study the *Official Report* at length to try to make sense of it all.

**Irene Oldfather:** I want to pick up on a point that Dennis Malone raised about complementarity. You mentioned that you will have to run several programmes and ensure complementarity between structural funds and national programmes such as the European agricultural

guidance and guarantee fund, fisheries programmes, and so on. That will probably affect the south of Scotland more. To what extent do you feel that complementarity is present at the moment?

Laurie Russell's submission states:

"The Scottish Parliament Finance Committee report in 2004 demonstrated that the funds spent on economic development in rural areas far exceed those spent in urban areas. There is clearly currently an imbalance which the Structural Funds can help address by ensuring that Structural Fund Programmes are focused on urban communities."

I am sure that that is provocative, but I want to get your views. I am acutely aware, for example, that common agricultural policy funding and its direction have changed hugely in the past 10 years. At one point, that funding went directly to farmers, but now much goes to the economic development of rural communities. Has account been taken of that? Does not that mean that more money should go to urban areas, as Laurie Russell suggests?

15:15

**The Convener:** Trust Irene Oldfather to end on such a non-contentious point.

**Dennis Malone:** That was an interesting series of points; I do not know where to start. All I know is that, in the past two programmes, we have tried to get closer to how the agricultural and fisheries moneys have been used in the Highlands and Islands, particularly in the more remote and fragile areas. We face the disintegration of the participation and involvement of our colleagues, principally from the Scottish Executive Environment and Rural Affairs Department. We ensured that local committees determined how money was spent under some of the schemes that SEERAD operates, but we are afraid that as we move into the new programming period, more of those decisions—particularly about farm diversification—will be taken back to the centre rather than made in the Highlands and Islands.

**Donald MacKinnon:** I return to the CAP. The report to which Laurie Russell referred categorised CAP funding as a subsidy to produce food. Whether it is considered a subsidy to the agricultural sector or to the consumer, who probably pays 2p less a loaf or 3p less a litre of milk than they would if the CAP payment were not made, is a matter of philosophy. However, it was wrong to call that economic development. Calling it an agricultural subsidy is fine, but it could also be called a food production subsidy. The description was misleading.

**The Convener:** All eyes are on Laurie Russell.

**Irene Oldfather:** I am sure that Laurie Russell stands by his comment.

**Laurie Russell:** The fundamental point is that we should consider structural funds to be additional to public money that is provided through the Scottish Executive, Scottish Enterprise and other funding agencies. The structural funds add value to areas that are lagging behind. From the evidence that I saw in the Finance Committee report, I think that the main public bodies in Scotland were spending more per head on economic development in rural areas, so there is an argument for focusing structural funds on parts of urban Scotland.

**The Convener:** Would Christine Mulligan or Gordon McLaren like to comment?

**Christine Mulligan:** The objective 3 programme has covered urban and rural areas. We have put less into rural areas than urban areas, but that is a reflection not of the programme but of where bids came from. There is, perhaps, time to address that in the new programme.

**Gordon McLaren:** As I said in my introduction, we have worked hard because we have a substantial rural hinterland in the north-east in particular. We have been conscious that people there need to play an equal part in the process. We have worked closely and hard with organisations there and we have run events that were geared to the needs and opportunities in the north-east, particularly in sectors such as food and drink and forest products.

That relates to the thematic approach. Opportunities exist and investment in rural communities is needed. The demographic changes in Scotland and out-migration create problems, and will not help the overall sustainability of communities if we allow them to continue unhindered. A level of sound and sustainable investment is needed in sectors that can grow in rural communities. In such communities, opportunities arise from sustainable and renewable energy activities, which are beginning to gear up. The Scottish Executive is starting to put resources into them. Opportunities exist and balance is needed.

As for the statistics that Laurie Russell cited, which we have not seen, we are not always comparing like with like. CAP funding is separate funding and I agree with Donald MacKinnon that it is not economic development funding.

**The Convener:** Thank you very much for that. We have run over slightly. I offer Dennis Malone's apologies to everyone—he has had to leave to catch a plane. I have a tiny little, straightforward question to ask. If the Scottish Executive implements the planning and disbursement of funds as everyone believes it will and we have one scheme for lowland and upland Scotland, that will obviously affect the organisations that have been

operating within those areas—your four organisations, for example. Will you become competitors in seeking funds? Will that damage projects overall? How will the reduction in funding straight away and the different way in which funds will be administered affect each of your organisations?

**Laurie Russell:** The current proposal is that whatever is available through the competitive challenge funding part of the structural funds will go out to tender. A prior information notice has just come from the Scottish Executive about that. We are not permitted to discuss it in detail because we are at a contract stage.

We could be competitors or we could be working together in future. All the organisations have been asked to produce continuity and exit strategies to think through the implications of the change. Like the other organisations, Strathclyde European Partnership has been doing that for the past year and a half to two years, because we have expected the reduction in funds to come at this stage, as I said at the beginning. We have thought through the change, talked to staff—we have a number of staff who are on secondment to different agencies—and helped them to think about the future of their careers, such as where they might want to work.

At the same time, we have been trying to maintain motivation for closing the current programme. We are still accepting applications, still monitoring and still processing expenditure claims. As somebody said earlier, we have to do that until the middle of 2009, before the final annual reports are submitted to the Scottish Executive and then on to the European Commission.

We have a balancing act to maintain. Our boards take that seriously and they are considering how we do it. We do not want to diminish the service that we provide to our partners at the moment but, at the same time, we need to think about possibly reducing staff numbers and not filling vacancies when they occur.

**The Convener:** Would anyone like to add to that? I am aware of the strictures that you are all under.

**Donald MacKinnon:** The steps that the SSEP is taking are probably the same as those that are being taken in all the organisations when a member of staff leaves—which happens, as they face uncertainty and they have mortgages to pay. At the committee's previous meeting, reference was made to a member of my staff leaving. Now we are down to six members of staff and we have to plan a process based either on a continuation strategy or on an exit strategy. At the moment, my

aim is to secure a reasonably long-term contract for enough members of staff to manage the rest of the programme—the claims process, the reporting, the monitoring and the evaluation—which lasts until June 2009. In the face of such uncertainty, that presents challenges.

**Christine Mulligan:** I agree. The Objective 3 Partnership currently has 24 members of staff but, as Donald MacKinnon said, it is a difficult time for all of us. We still have about 500 claims a month to process, so we are undertaking a fairly high volume of work. Our board is taking the situation seriously and considering any options that it can to retain staff for as long as it can. However, the next few months will be crucial, as we will hear the outcome of the procurement process. I expect a dramatic change in staff views depending on the outcome.

**Gordon McLaren:** The East of Scotland European Partnership is down to eight staff, which is becoming more and more of a struggle. Because of the future uncertainties, it is difficult to recruit in the current climate.

We are potentially in competition with each other, but we just have to deal with that. We do not have any right to continue to exist, as the future will be based on change and rationalisation. All I want is for the legacy of what we have achieved up to this point to continue to be based on partnership and a value-added, quality service, however that may be shaped.

**The Convener:** I thank you all very much for taking the time out to answer our questions and give us a feel for what it is like to be working in the field at the moment.

I will suspend the meeting for a couple of minutes to allow for a changeover of witnesses.

15:25

*Meeting suspended.*

15:33

*On resuming—*

## Energy Inquiry

**The Convener:** Agenda item 3 is evidence in the committee's inquiry to inform its response to the European Commission's green paper on a European strategy for sustainable, competitive and secure energy.

The committee considered the terms of reference for the inquiry at its previous meeting and the agreed terms have been provided in the papers for today's meeting. Members will recall that we agreed that we would focus our response on the section of the green paper on energy efficiency.

I am delighted that we have some experts on energy efficiency before us. Andrew Warren is director of the Association for the Conservation of Energy; Chas Booth is parliamentary officer for Friends of the Earth Scotland; and John Stocks is the Carbon Trust's manager for Scotland. Andrew and Chas provided some advance information to the committee, but I ask each of you to make a short opening statement. I understand that you all have your specialisms, so I ask you to indicate which of you would like to respond when questions are put by members of the committee.

**Andrew Warren (Association for the Conservation of Energy):** Good afternoon. It is nice to be here today. Previously I have visited the committee room only as a tourist so it is nice to see it in official use.

I am the director of the Association for the Conservation of Energy, which is based in London. The association is both a research and an advocacy organisation. I also act as the senior adviser not just to ACE in the United Kingdom but to European ACE. I think that members can work out from that what our interests are as far as Brussels is concerned.

I should perhaps declare an interest in the green paper. I was quite heavily involved in its development because I serve on an advisory forum to the transport and energy directorates in Brussels and we worked closely with both of the relevant commissioners. The Commissioner for Energy, Andris Piebalgs, asked for our views in the run-up to the publication of the green paper and it incorporates many of the views that we hold strongly, most of which are about energy efficiency. We welcome the fact that the European and External Relations Committee picked up on the strong message about the importance of energy efficiency both in the European context and in individual member states.

**Chas Booth (Friends of the Earth Scotland):** As I am sure members know, Friends of the Earth

Scotland is Scotland's leading environmental campaigning organisation. We have been active since 1978. We collaborate closely with the Association for the Conservation of Energy and have done so for many years. ACE jointly funds my post and much of my work is research and advocacy on energy efficiency in the Scottish policy context, with a particular focus on fuel poverty. I sit on the Scottish Executive's fuel poverty forum.

**John Stocks (Carbon Trust):** The Carbon Trust was established by Government in 2001. Our mission is to accelerate the transition to a low-carbon economy. We do that through two key threads of activity: we help businesses and the public sector to reduce their carbon emissions; and we help to develop the low-carbon technologies of tomorrow. Our organisation was established as an independent company, so we have a range of financial and non-financial support mechanisms. That allows us to give advice and grants to business and it could even lead to equity loans. There are now 140 of us throughout the UK and our spend this year is expected to be about £100 million, which includes £5.5 million from the Scottish Executive.

There are eight of us working from an office in East Kilbride. Our principal roles are to manage the £2 million of direct, local delivery that goes into Scottish business every year, to promote the work on developing future activities that is done throughout the UK, and to ensure that the trust's central knowledge resource is leveraged into Scotland so that Scotland gets the benefit of that work.

**The Convener:** Thank you. I open up the meeting for questions from committee members.

**Phil Gallie:** I will concentrate on efficiency. The European Commission is concerned about security of supply—I say to my Friends of the Earth colleague that I welcome the recent conversion of Patrick Moore, the founder of FOE, to a rational approach to secure supplies.

I have a question for Mr Warren. Your association has existed—and you have been its director—since 1981. Has progress been made on saving energy during that time? If so, will you quantify the units of electricity that have been saved?

**Andrew Warren:** Are you asking about the European context?

**Phil Gallie:** I am asking about the United Kingdom and Scottish contexts in particular.

**Andrew Warren:** I am sorry. I was under the impression that we were discussing the European green paper, so I did not bring the relevant figures. You are right to say that for the past 25 years or

so, my association has sought in a UK context and latterly, in a European context, to get over the message that the cheapest, most publicly acceptable and swiftest means of addressing some of our energy issues is to reduce our waste.

On security, you will see from the green paper that one of the best means of addressing worries about imports is to minimise the amount that we need to import by minimising the amount that we consume.

One could produce any number of figures about the way in which the energy intensity of the UK economy has improved. By energy intensity, I mean the amount of energy that we need to use to produce a given unit of output. Since 1997—I do not know why that year should spring to mind—there has been something like a 30 to 40 per cent increase in our affluence as a community, but only a 3 per cent increase in the amount of energy used. That follows patterns throughout Europe. As members will see from the green paper, we are improving our energy intensity by about 1 per cent per annum by reducing the amount of energy that we use to improve our economy.

The green paper makes the point that we need to up our game. It posits that we need to improve our energy intensity by a further 1 per cent per annum. About six months before the green paper was produced, the European Commission published another green paper. It was called “Doing More with Less” and focused specifically on ideas to deliver energy efficiency. The green paper before us today is the strategic paper that considers broadly all types of energy, including various supply options. The previous green paper is a subset of that and an action plan will come directly from it later in the year.

There are several examples, including from the UK, that demonstrate that, per kilowatt hour, energy efficiency measures are much more cost effective than any form of new supply, including new electricity supply.

**Phil Gallie:** I tend to agree with that objective. However, here in Scotland we were encouraging and funding the insulation of lofts and cavity walls in 1980. How many owners have insulated their properties in Scotland, and—recognising your wider remit—the UK? New construction standards ensure that sufficient levels of energy efficiency are built into the construction process. Where do we stand with the construction industry?

**Andrew Warren:** Those are two different questions. One relates to existing homes and the other to new homes. You are right to say that the Labour Government of 1977 introduced a loft insulation programme, but not a cavity wall insulation programme. To the best of my knowledge, direct subsidies have never been

available from Government for people to install cavity wall insulation.

**The Convener:** I interrupt you to say that there was such a programme in Scotland.

**Andrew Warren:** A cavity wall insulation programme?

**The Convener:** Yes.

**Andrew Warren:** I am delighted to gather that. How recent was that?

**The Convener:** If I remember rightly, the programme was administered through local authorities.

**Phil Gallie:** It was offered by the Tory Government in 1980.

15:45

**Andrew Warren:** Thank you. I think that the question was asked in a UK context so I replied in a UK context. I was going on to say that the funded home insulation programme was continued after the 1979 election but faded out towards the end of the 1980s.

I think that I am right in saying this, although I stand to be corrected, but I am not aware of any programme being funded by national, regional or local government. At the moment there are programmes run by what is called the energy efficiency commitment, which is a requirement for energy companies that want to supply gas or electricity to individual households to negotiate with the Office of Gas and Electricity Markets to deliver a certain amount of savings over a three-year period. Those programmes have been delivered extremely cost-effectively to date.

I have a feeling that Chas Booth might know the numbers for Scotland and will provide them to you.

**The Convener:** There are different methods of construction in Scotland and other parts of the United Kingdom. Chas Booth will probably be able to pick up on that, as well as on the recent relevant legislation that has been passed.

**Chas Booth:** I will comment on two issues. Friends of the Earth Scotland and the Association for the Conservation of Energy have been extremely complimentary about the Scottish Executive's central heating programme and the warm deal, which focused on the fuel-poor and pensioners, as members will know. Since 2001, the Executive has invested in the region of £183 million. Until 2002, it was quite successful in reducing fuel poverty; figures fell from around 35 per cent to approximately 13 per cent. However, the most recent Scottish house condition survey, which takes us up to 2003, showed a 1.5 per cent increase in fuel poverty. Given the recent fuel

price rises, I have a strong suspicion, which other observers share, that more recent figures will also have gone up. To us, that underlines the importance of renewed political commitment to the warm deal and the central heating programme, which in a sense are about retrofitting insulation.

For new buildings, members might be aware that the Scottish Building Standards Agency currently has a consultation out on the parts of the building regulations that concern energy. We are very glad that there has been an increase in the level of U-values, or the energy values of elements of buildings. However, we feel that there are several elements missing from the regulations. For example, there is no compulsory air tightness testing in the Scottish building regulations, which is included in the English regulations. Some research has been done in England that suggests that up to one third of buildings do not meet building regulations standards. To us, that is an absolute scandal, but the research that has been done is limited. We have asked the Scottish Building Standards Agency to do similar research in Scotland but so far it has refused. The committee might want to take a view on that.

We believe that there is an opportunity to insulate the fuel-poor from rising fuel prices through the use of micro-renewables, such as solar water heaters, small-scale wind turbines, ground source heat pumps and so on. A number of boroughs in England have successfully introduced a compulsory micro-renewable element in large buildings. Woking and Merton are two such boroughs. The current review of our building regulations specifically rules that out. We believe that that is a major missed opportunity and that the SBSA should review the position.

**The Convener:** John Stocks, did you want to come in there? I thought that you were subtly indicating to me.

**John Stocks:** No, I am just getting a feel for the place.

**The Convener:** Okay.

Bruce Crawford has already apologised to me as he must leave at 4 o'clock, so I will give him the opportunity to ask anything he wants to ask before he leaves.

**Bruce Crawford:** Chas Booth has unpicked some of the questions that I was going to ask. Obviously the EU is doing what it is doing, but for me the question is about what we can change. Where can we make the biggest gains? Is it through grant finance or legislative change? Chas began to talk about some of the issues around regulations.

In this country, we are having a discussion about additional electricity production. If we can make

significant gains in energy efficiency, the figures that we have to deal with might change and the required production level might not be as high. My concern is that peak winter demand in Scotland seems to be on a continuing upward curve—particularly electricity demand. If we are being more energy efficient, that is certainly not showing itself in the figures. How can we go that bit further? What are the big things that we could do to make a difference?

**Chas Booth:** Andrew Warren will probably have quite a lot to say on the matter.

The Scottish Executive is already doing a lot that is good. We mentioned the central heating programme. The Executive also has a highly successful programme that gives zero-interest loans to small and medium-sized enterprises to install energy efficiency measures. The loan is paid back over up to five years, from the reduction in outgoings that has come about through the energy efficiency measures.

The programme is called loan action Scotland. The current budget is about £1.4 million, but the money is paid back to the Executive, so it is one of the cheapest ways of saving carbon. It also has the benefit of reducing costs to businesses. It is a great scheme, but in our view the Executive is not putting enough money into it and is not being ambitious enough. Last year's figures indicate that the Executive gave 32 loans for the whole of Scotland. We believe that the programme is fantastic and must be expanded. That is one example of good practice in Scotland that could be taken a lot further.

**The Convener:** I turn to John Stocks, as the Carbon Trust's submission points out that its review found that there were barriers to the uptake of greater energy efficiency measures in businesses. Will you also address that issue in your response?

**John Stocks:** I will go back to another point that was made earlier. For one or two reasons, I have had a look at some of the outcomes from the Scottish energy study. It shows that if one nets out one single plant closure, Ravenscraig—one has to guess a little bit how much energy went into Ravenscraig—it looks as though Scotland's energy demand rose by about 10 per cent between 1990 and 2002. When one looks behind those figures, particularly in the domestic and service areas, the rate of the rise in electricity demand is perhaps twice the rate of the rise in gas demand. Information technology, mobile phone chargers that are plugged in all the time and so on are driving increased demand for electricity more so than for gas, which would be used for space heating in domestic and service areas.

I have also tried to figure out where all Scotland's energy goes and to establish how

much is used for transport, space heating, industrial process heating and electricity. These are rough figures: space heating represents about 40 per cent of the energy take, about half of which goes on heating domestic homes; transport accounts for 28 per cent; industrial processing heating accounts for 11 per cent; and electricity accounts for about 21 per cent.

Electricity is a big part of the equation and its use is growing. The IT revolution plays a part in that. The EU perhaps has a part to play because the products are sold on global markets. Global manufacturers will take note only when big market blocs produce specifications for how energy efficient pieces of kit must be. The use of electricity in IT equipment is an important issue.

**Andrew Warren:** I agree with my colleagues. This is one of the matters on which the EU has proposed a number of initiatives, through the "Doing More with Less" concept.

Before we get into a spiral of despair, we should consider what is probably now the most successful economy in the world, which is California. Over the past 15 years or so, California has managed to grow its economy substantially, but the growth in electricity use per capita—I note John Stocks's point about differentiating between electricity use and energy use—has been nil. It has managed to grow the economy and restrain electricity demand. We have tried to learn lessons from that in developing a pan-Europe strategy.

A number of directives have appeared, such as the directive on the energy performance of buildings, which ought to have been implemented already—it should have come into force in January. To the best of my knowledge, although changes to the standards for new buildings are expected, we have not started to enforce the requirements for existing buildings—such as the requirement to have a survey done whenever a building changes hands and to inform people of the necessary improvements. One has to ask why not. The European Commission has asked the Westminster Government why that has not happened in England and Wales—although it is expected that it will start to happen there next year—and in Scotland.

Other directives are pertinent, such as the eco-design directive, which is directed at the electricity-consuming items that we use. It will not just give items a star rating—most members of the committee will be familiar with the relative ratings of washing machines and dishwashers—but will try to outlaw some of the worst gas-guzzling items.

A directive has just been passed on the encouragement of energy services and the introduction of smart metering, which will provide individual consumers, whether large or small, with

direct evidence of how much energy individual items that they plug into the mains use.

All those directives are intended to address energy efficiency. Enormous potential savings have been identified. For example, we could easily use one fifth less electricity to produce the same wealth as we are producing now. Throughout Europe, we could have a 20 per cent saving, while still enjoying the same living standards as we enjoy today.

**Phil Gallie:** Mr Warren referred to the stabilisation in California. I seem to remember that California has suffered massive power cuts in recent times because of lack of supply. Is there anything that we can learn from that?

**Andrew Warren:** What we can learn from that is that we should not encourage Enron to run too many things.

**Dennis Canavan:** How useful is thermal imaging of buildings in assessing their energy efficiency? Would it be practical or desirable for the Scottish Executive to try to encourage such imaging to assess the efficiency of individual buildings?

**John Stocks:** I have seen a couple of examples of that. I was once involved in a competition in which Chester City Council thermally imaged some of the larger housing estates in Chester. It took photographs of people's houses from above and then chapped on their doors and showed them the pictures, which showed that they were losing a lot of energy. That approach, which involved a direct personal appeal to the householders, was successful. I have also seen survey work that was carried out in Glasgow city centre, where there are good and bad buildings.

The convener mentioned barriers. One of the biggest barriers involves commercial properties, where the relationship between tenant and landlord and between developer and funder means that a host of issues arise. In commercial properties that are let to businesses, everyone desires energy efficiency, but it is hard for any of those involved to go it alone down that road. There are not enough tenants demanding energy-efficient buildings to persuade developers to provide them. Developers cannot build buildings that are more expensive than they need to be because funders look for rates of return on their capital. That wheel of inertia is a barrier to energy efficiency.

Returning to thermal imaging, I have seen images of buildings with poor energy efficiency in Glasgow city centre, but I do not know how to access that to unlock the problem.

16:00

**Dennis Canavan:** Is thermal imaging an expensive process? Would it be a good investment for the Scottish Executive to encourage people to use such imaging?

**Andrew Warren:** I happen to think that thermal imaging is a very good idea indeed, because it provides people with an outward, visible sign of wastefulness. One of the great difficulties with the climate change issue is that carbon dioxide, which comes from fossil fuel energy burning, cannot be seen, so it is difficult to get the concept across to people. The benefit of thermal imaging is that it makes it transparent who is being wasteful.

I hope that I will be forgiven for saying this, but I would start with publicly owned buildings. Without any doubt, there is an enormous difference between some publicly owned buildings that are extremely well run and others that leave perhaps a little to be desired. If we could demonstrate clearly which public buildings are wasting public money—which we could do very easily via thermographic photography—those who are directly responsible for the public purse could demonstrate whether they are being wasteful. For some buildings, there would be a good story to tell, but that would not be the case for other buildings.

One of the great things that could happen—this would address the worry that John Stocks highlighted about how to get the commercial sector interested—is that public sector organisations could demand that any buildings that they occupy must be some of the best around. They might insist that their building be in the top quartile, as it were. Once the public sector did that, the entire marketplace would change for the simple reason that public sector organisations are desirable tenants—as much as anything else, because they do not go bankrupt and they pay the bills. Landlords would then feel that it was worth their while to have a decent building because otherwise they would lose out on the public sector, which in effect accounts for about a quarter of potential tenants.

I would definitely say yes to thermographic imaging. In particular, I would say yes to using such imaging for public buildings.

**The Convener:** Irene Oldfather has a quick supplementary on that subject.

**Irene Oldfather:** Further to that point about public buildings, I presume that members of the panel are therefore in favour of the eco-schools initiative. Do they agree that, as well as ensuring that our school buildings have efficient insulation, lighting, heating and so on, the initiative also sends a message to young people about the importance of energy efficiency?

**Chas Booth:** Yes, absolutely. Friends of the Earth has supported the eco-schools programme. On the issue of good practice in schools, the committee may be aware of the work of Howard Liddell from Gaia architects, who has recently completed a school that is heated by Weetabix—

**The Convener:** That sounds like a very good use for Weetabix.

**Chas Booth:** The school has no external source of heat apart from the heat created by the kids running around. The building is so well insulated that it does not need any external source of heat.

Another example of a well-built building was recently completed by Fyne Homes Limited on the Isle of Bute. The building is called “A’ Chrannag” and it provides social housing in which each flat needs only one radiator.

We have many examples of good practice in Scotland that have been around for a number of years, but the big problem is with mainstreaming. That is where we come back to the importance of building regulations. In theory, our building regulations set a minimum standard for how to build homes. In reality, however, builders are unlikely to go above building standards because doing so puts them at a competitive disadvantage. For that reason, we really need to aim high in building regulations.

We also feel that the current proposals for building regulations do not go far enough with regard to greenhouses. Some examples of highly energy-efficient glass—

**Andrew Warren:** I think that you mean conservatories.

**Chas Booth:** Yes, I do.

Conservatories—[*Laughter.*]

**The Convener:** I suggest that you take a deep breath and start again.

**Chas Booth:** The review will not cover standards for those structures. That is a missed opportunity, because a lot of energy is wasted through conservatories.

**The Convener:** And by—no, I will not finish that sentence.

**John Home Robertson:** You have concentrated on making the consumption of electricity more efficient. That is certainly an important issue; however, given that a high percentage of Scotland’s electricity is generated by the two power stations and a number of wind turbines on my patch, I come at these issues from the other end of the industry. I suppose that we had better discuss the issue of carbon at some point.

We can do a lot about energy efficiency in public buildings, businesses and houses, but what about power stations? How much hot water is being pumped into the Firth of Forth from the two power stations on my patch? What is happening with combined heat and power? Can examples from other parts of Europe teach us better ways of harnessing the energy used in power stations?

**Andrew Warren:** Yes. In fact, there is an EU directive on cogeneration, which is Eurospeak for combined heat and power.

I hope that you will forgive me for having only the UK CHP figures, which have at best remained static over the past few years. Obviously, for myriad reasons—one of which is the relative price of gas—the Government is not going to meet its 2010 target on CHP.

However, there is a belief that, instead of trying to replicate large-scale cogeneration, we should consider microgeneration. In his introduction, my colleague Chas Booth said that each of us should have almost a power station in our own homes—

**John Home Robertson:** I will have a nuclear power station in mine, thanks.

**Andrew Warren:** I am sure that that comment will be duly noted and that the companies will be rushing round to offer you one.

That idea brings us back to Dennis Canavan's point about making people more aware of the energy that they use and waste. It has been demonstrated that households that have their own local boiler or microgenerator—with which, I should add, they could in principle sell electricity back into the grid—not only become much more aware of how that piece of equipment works but become more concerned about whether they have compact fluorescent light bulbs, whether their building is well insulated or, indeed, whether their conservatory is decently insulated, has modern energy-efficient glass and so on.

I feel that if people are more involved with cogeneration, more hearts and minds will be won to this cause. A great difficulty with getting people involved in this issue is people's assumption that if they flick the light switch, the lights will come on. They are not aware, for example, of the location of power stations and of distribution arrangements and other measures that need to be in place before the electricity can reach their building. The more we can devolve this matter and give power to the individual, the more likely people are to use energy in a more rational way.

**John Home Robertson:** It seems a long time ago, but I remember having a discussion with a former energy minister about the potential for a combined heat and power system for Edinburgh, based on a power station that is on my patch but

which is close to the city. The project was physically straightforward, but it would have been expensive. However, the point is that such projects can be carried out on a larger scale.

**Andrew Warren:** There have been an enormous number of missed opportunities.

**John Home Robertson:** Do you know of any good examples of larger-scale projects from elsewhere? I hear what you say about the attractions of microgeneration and everybody being self-sufficient, but it would be a bit reckless for us politicians to depend on that and to drift into a situation in which we had a shortage of base-load electricity to keep the lights on and the fridges running. How far do you want to go with that idea?

**Andrew Warren:** Microgeneration is not just a brown-shirt-and-lentils concept.

**John Home Robertson:** Sandals.

**Andrew Warren:** Yes, "shirt" is wrong—I mean brown sandals and lentils. I was trying to remember what the vegetable was, rather than the piece of attire. My point is that microgeneration is not just an academic theory. Major multinational companies are involved seriously in developing the concept, and not because they wish to develop a niche market. The issue is being considered throughout Europe, with the aim of getting away from the concept that big is beautiful and the thought that other people will deal with the issue. If we are to address climate change, we must empower individuals to respond. One of the best ways of doing that is to ensure that power generation is devolved as close to the individual as possible.

**John Home Robertson:** By the same token, it is surely just as important to ensure that the public sector takes a lead by using generators that do not emit carbon dioxide to provide base-load power. That must be a priority.

**The Convener:** Chas Booth has been waiting patiently to speak.

**Chas Booth:** I agree completely with John Home Robertson that the public sector should take the lead. He asked about examples of best practice. Obviously, one could point to Denmark and the Netherlands as countries that have taken on the concept of microgeneration, but there are examples closer to home. I return to Woking Borough Council in the south-east of England. That is not a very sexy example, but it has an enormously successful combined heat and power station that supplies all the municipal buildings in Woking with heat and electricity, which has cut bills enormously and which is a great deal for the council tax payer. The chap who was responsible for that is now director of the London Climate Change Agency—his name eludes me.

**Andrew Warren:** It is Allan Jones.

**Chas Booth:** That is the one. He is a revolutionary thinker in Britain but, in continental Europe, he would be seen as quite normal.

**The Convener:** I am sure that Mr Jones will be delighted to have it recorded in the *Official Report* that he is quite normal.

**Mr Gordon:** My question is on the point that Mr Warren mentioned a moment ago about informed actions by domestic consumers. Is there a role for a good old-fashioned education campaign? Fascinating though the discussion is to you and me, ordinary people find the subject rather dry, complex and, dare I say, boring. However, we could educate them about the implications of what we do every day in the home and incentivise them by allowing them to make informed choices that would actually save money. For example, we could inform people of the significance of leaving their television set on standby and of the type of refrigerator that they buy and tell them when smart refrigerators will be available to reduce energy consumption and avoid surges in the supply system. I turn off my computer screen when I leave the office, but not many people do that. It is not rocket science.

It is a long time since we had an old-fashioned education campaign in this country—we probably have not had one since the 1970s, when the lights were going off for various reasons. We should tell people, “It might be an idea to switch that off. If you’re altruistic, you’ll do it because it helps the country, but if you’re not, here’s how much money you’ll save.”

16:15

**The Convener:** Before the witnesses jump in to answer that, will one of you talk about energy efficiency trading?

**Chas Booth:** Mr Gordon is right to say that we need education. Consumers need the information to enable them to make the right choice. For example, if the energy performance of buildings directive, which Andrew Warren mentioned, had been implemented, a person who was buying a house in Scotland would know how much energy the house used. We might have to wait for three years before the directive is implemented, which is a missed opportunity. Such labelling is already used on white goods and could be taken further. We should roll the concept out.

Mr Gordon is right to talk about incentives. In England, consumers in 21 local authorities can benefit from a £100 rebate on their council tax if they install energy efficiency measures, through a British Gas scheme. Unfortunately Scottish consumers are not eligible because local

authorities cannot give such a rebate. I thoroughly commend the fantastic campaign on the matter that Mr Gordon’s colleague Sarah Boyack is running in conjunction with Scottish Gas. In England, the average annual savings on energy bills for the people who are in the scheme is £145. They are not only quids in but they are reducing carbon emissions. Andrew Warren will perhaps talk more about how we create financial incentives to reduce emissions.

**John Stocks:** Before we move on to carbon trading, I want to talk about knowledge, because knowing how much energy we use and when and where we use it is key to solid energy management. The industrial companies that have been highly successful have based their programmes on very good metering information. It is paramount that such information should be in place.

I agree with everything that has been said about the need to increase people’s awareness of energy matters. Environmental awareness is a big driver for people, who want to contribute to the world in which they live, so if we make people aware of energy use they will want to take action at home and at work. However, the approach must be driven by information and we must get metering right. In no area of energy consumption is adequate information provided in a timely enough manner to enable people to act. Strong action is needed.

**Andrew Warren:** The convener asked about trading activity on energy saving. The green paper talks about a white certificates scheme. The idea is to produce something fungible beyond just the energy saving, which gives absolute value to the concept of saving energy.

Such a scheme already exists. Many large users of energy in Scotland and throughout the 25 EU member states use the emissions trading scheme, which involves the trading of permits that are measured in terms of the amounts of carbon used.

The concept of white certificates is to reach down so that other players get involved. I turned to my colleague, John Stocks, hoping that he was going to come in, because the Carbon Trust has proposed just such a white certificate scheme for the United Kingdom. It would involve not necessarily individual householders—although the trust’s proposal has not ruled that out—but the substantial and growing commercial and services sector, in which there are presently very few incentives because their energy bills are not that high. They often occupy buildings that they do not own, just as John Stocks has instanced. The aim is to find a way in which those who bother to invest in energy saving get rewarded above and beyond the fact that they are saving money; they should also have some fungibles to trade on.

The thinking in some parts of Brussels is that we need a pan-European scheme for that to work. I will now choose my words extremely carefully, but I think that there is some merit in first trying to see whether it can be made to work in individual states. I am a great supporter of the European emissions trading scheme for big pan-European companies, but many of the potential participants from the commercial sector are not big pan-European companies. They have a significant role to play in the Scottish economy, but they are not necessarily going to be in a position to trade with their opposite numbers in Warsaw, Valencia or Rome. There is considerable merit in the scheme proposed by the Carbon Trust. It complies with the concept proposed in the European green paper that we have before us, but it would be a purely UK-wide system, and possibly a Scottish system.

**The Convener:** Jim Wallace, I pre-empted you on that. Would you like to probe it further with the Carbon Trust?

**Mr Wallace:** Perhaps my colleagues have grasped it entirely, but how would such a scheme work? When you talk about fungibles, what are you trading and who are you trading with?

**John Stocks:** I did not realise that CETS as we call it—the carbon emissions trading scheme—was a white trading scheme, so I thank Andrew for that.

**Andrew Warren:** White certificate. I was corrected when I said brown shirt.

**John Stocks:** First, I would refer to the EU emissions trading scheme as it stands, which is a scheme for half a dozen large, energy-intensive industries, and sites that have large energy plants—more than 20MW—on them. It includes quite a few of the Scottish universities and the big Scottish hospitals. It is quite an involvement. We are very supportive of the EU ETS.

We are very much in favour of the notion that if carbon has a value, if you have carbon credits someone else will want to buy them. If you have the mechanism to create carbon credits easily then you will want to do so because you will have a commodity that you can trade. We are concerned about whether a level playing field exists throughout Europe and whether the emission caps are in place that will create a demand for carbon credits.

Unless someone is hurting a little bit and needs to buy some credits, there is no market and therefore there is not a price. Somebody who could easily do something to create carbon credits will not do so because there is no value in it. You need to have meaningful caps to create a market to create demand for carbon credits. There are issues there that the EU needs to develop.

Investment decisions in business have long timeframes. At the moment, we are talking about the second phase of the EU ETS, which is 2008 to 2012. That is not a long timeframe for business, which needs certainty beyond that. In our climate change programme review paper we proposed something called consumption-based emissions trading.

The current EU ETS is all about looking at the emissions that arise from the primary use of energy—the energy that goes into a power station or a cement works, or the gas that is used by, say, a hospital. It does not cover the electricity use on the site of a hospital; nor does it include electricity and gas use by, say, the supermarket chains, which, collectively, are very big users of energy. Therefore, EU ETS is not hitting a lot of commercial use of energy: those premises are not incentivised at all. The core of the proposition in consumption-based EU ETS is that the concepts of emissions trading should be moved downwards and that we should involve a lot more commercial and retail organisations, which are also large energy consumers but are not being caught by the current scheme.

**Mr Wallace:** The written submission that we received from Andrew Warren and Chas Booth said that we should focus on reducing carbon emissions rather than energy efficiency. Are those not two sides of the same coin? Why do you say that in your submission?

**Andrew Warren:** There is a distinction to be made between energy efficiency and energy conservation. That is why, throughout this long period—as Phil Gallie reminded me, the issue, horrendously, dates back 25 years or so—we have retained the name Association for the Conservation of Energy. Energy efficiency means using the amount of energy that is deployed more efficiently; it does not necessarily mean using less energy overall. Energy conservation means trying to ensure that, while continuing to deliver as much as possible, overall consumption is reduced in all parts of energy use.

We talked earlier about cavity wall insulation. I did not cover myself in glory, as I forgot that, in the early 1980s, there was a scheme for that in Scotland. Money can be saved through having cavity wall insulation; however, the consumer can then go out and spend that money on a cheap air ticket to somewhere or other. In terms of overall conservation, that does not assist us very much. We are looking to move towards all forms of energy and all forms of carbon having an absolute value. We are trying to reduce the absolute amounts of consumption—in other words, to cap the total amount of consumption in order to address the issues of climate change and, as we have discussed, security. The less energy we use, the less we have to import.

**Mr Wallace:** In almost a throwaway line, you said that a scheme could perhaps be introduced in Scotland. Can you elaborate on that? Is the white certificate scheme something that we could do in Scotland, as opposed to in the UK? How would you kick-start it?

**Andrew Warren:** Given the porousness of the borders, it would probably be more appropriate to have the scheme work throughout the United Kingdom. I can see how you could have micro schemes working within a certain part of the Scottish economy, if you were so minded. I am looking at my colleague, to see whether he wants to comment on that.

**Chas Booth** *indicated disagreement.*

16:30

**Andrew Warren:** If the scheme was introduced throughout the UK, however, because of the porousness of the borders, we would have to consider whether to bring in Ireland. That is why part of the thinking behind the green paper that is before the committee is to do with Europe-wide white certificates. I am a little leery, however, about the idea of including relatively small consumers in that. Sainsbury's and Tesco do not fall into that category, but there are some relatively small companies that I would hesitate to ask to enter into a trading scheme that stretched across the whole of Europe.

There is no reason why one could not set up some form of micro scheme. I posit this having not previously considered the idea, but why should that not happen in, for example, the public sector in Scotland? Why could there not be a means of trading in the public sector that would reward energy managers who delivered and castigate those who did not?

There is a lot to be said for getting public buildings right. They are the buildings that set an example for the rest of the country and demonstrate to people that what politicians say is not just rhetoric; that they are serious about the issue. It puts out a message that government is trying to address the key issues of competitiveness, of security and of improving the battle against climate change.

I make no apologies for returning to the point that one of the best ways of demonstrating that we are serious is by leading by example—it is a terrific way of doing things. We certainly have to pick up on the idea of motivating and—if you like, although the phrase has dreadful, pejorative connotations—educating individuals. Saying that makes it sound as if we are telling people, “We must educate you.”

Leading by example is a terrific way of doing things, as is Dennis Canavan's suggestion of

using thermographic surveys, which give people pictures. It is a tremendous idea to use that sort of thing to demonstrate that public money is being used sensibly.

When Jim Wallace was the Deputy First Minister, he set up a rotating fund for local authorities. Are you happy with the way in which the fund is being dealt with?

**Mr Wallace:** It has been on the go only for a year, but it may be time for me to lodge a parliamentary question on the issue; I could ask about evaluation and what my successor is doing with the fund.

**Andrew Warren:** I encourage you to do so.

**Mr Wallace:** It was a first-class idea.

**Andrew Warren:** It is a super idea; it got things moving. I cannot think who could have thought of it.

Another, similarly good, idea is the zero-interest loan scheme. It came out of Scotland and a number of countries have picked up on it. In acting as a bank, the scheme managers can say to relatively small and medium size companies, “We know what your core business is. We know that you don't really want to go to the bank to borrow money to save energy. We know that what you want to do is a good investment; we will act as the bank and you can pay back the money after five years.” The scheme is terrific. How much is the budget?

**Chas Booth:** It is currently £1.4 million.

**The Convener:** I suggest that we stop the mutual appreciation society that is going on here. I am very aware of the time.

I have a quick question on joined-up European directives. When we talk about public procurement, do the European procurement rules allow a nation state or a region to be prescriptive about such things as preferential treatment for energy efficiency products?

**Andrew Warren:** The issue has come up before now. I think I am right in saying that, broadly speaking, it is allowed as long as it is overtly stated in the tender documents. That said, people need to take legal advice each and every time. When someone tries to do that as an add-on, it is more difficult to achieve. That is equally true in the private finance initiative context. Article 5 of the energy end-use efficiency and energy services directive—

**The Convener:** A title that was kindly supplied by your colleague.

**Andrew Warren:** I am grateful to my colleague; I would have remembered it in any case.

The directive enables minimum environmental and energy performance standards to be set and for them to be applied through the usual tendering process. The new directive has been agreed and it will have to be rolled into force over the next two years. The requirement is stated unequivocally, whether for a PFI or any standard public procurement contract. It is perfectly possible to require really tough environmental standards—indeed, it makes sound sense to do that.

**The Convener:** That is a fairly good point to end on. If all of us could make sound sense, we would probably get on a lot better. Thank you, gentlemen, for your evidence today, which I found fascinating. The committee appreciates the way in which you imparted your knowledge. Some of what you said was fairly technical, however. I hope that you will find it acceptable if the clerks get in touch with you if they need further information or clarification.

**Chas Booth:** Yes.

**John Stocks:** Yes.

**Andrew Warren:** Yes.

**The Convener:** Thank you.

16:34

*Meeting suspended.*

16:37

*On resuming—*

## **European Commission Work Programme 2006**

**The Convener:** Item 4 is our regular paper on items in the European Commission's work programme that the committee has identified as being potentially important to Scotland. Additional information is provided in the paper on two issues that are currently in the headlines in Europe: the constitution for Europe and enlargement. Do members have any comments on the paper?

**Irene Oldfather:** Given the time, I will resist the temptation to comment if Phil Gallie will do the same.

**Phil Gallie:** I am tempted to comment, because the paper contains many controversial items on the proposed constitution. However, I welcome the European Commission's recognition that national parliaments should be given a greater role in policy formation. That policy has my total support.

## Pre and Post-council Scrutiny

16:38

**The Convener:** We move on to our regular consideration of the agendas and reports of Council of the European Union meetings. The paper on the agriculture and fisheries council that we were expecting is not included in the committee papers because it was received after the papers for this meeting had been issued. We will send it to members before the next meeting. Do members have any comments?

**Phil Gallie:** In the interests of time, I will not comment on the many items that I picked up on. When we receive details about what is being considered in Europe I can rarely find an item that is not relevant to the interests of our national Government. Some of the matters are reserved and some are not, but many matters that are being discussed throughout Europe seem to be outside the responsibilities of the European Union. There are myriad committees and people involved and how people can track the issues is beyond comprehension. That augurs badly for the future, unless we can get a grip on things somewhere along the line.

**Irene Oldfather:** I recognise the serious point that Phil Gallie makes. It is important to consider details, although we may not agree on outcomes. However, most of the information that is before us is on pre-council agendas, and information will therefore come back to us at a later meeting. In the interests of time, I am therefore happy to note the papers.

**The Convener:** Okay. All that remains for us to do is to thank the Executive for the information.

## Sift

16:40

**The Convener:** Item 6 is our regular sift of EC and EU documents and draft legislation. Members will note that there are no documents of special importance this week. Do members agree to refer the paper to the committees that are mentioned?

**Members** *indicated agreement.*

## Convener's Report

16:41

**The Convener:** Agenda item 7 is my regular report to the committee.

The first item is a letter to Jim Wallace from the Deputy Minister for Finance and Public Service Reform, George Lyon, on the JESSICA and JEREMIE—joint European support for sustainable investment in city areas and joint European resources for micro to medium enterprises—European Union programmes. The minister promised a letter during our chamber debate on the European Commission's work programme a while ago. Do you have any comments, Jim?

**Mr Wallace:** It is helpful to know that what we picked up in Brussels has been logged with the Executive. I am not saying that it did not know about such things before, but the information that we received in Brussels came as a bit of a surprise to us. Ensuring that the Executive is kept up to the mark on two schemes that potentially have something to offer Scotland is useful.

**The Convener:** The second item is information on genetically modified organisms that Bruce Crawford requested during our consideration of council agendas and reports in our meeting on 25 April. Bruce Crawford has had to leave the meeting, but he has left a comment for me. I refer to the first paragraph after the numbered paragraphs on page 7 of paper EU/S2/06/8/6. The letter states:

"In response to such fears, many regions have declared themselves 'GM-free' zones."

Bruce Crawford has asked us to ask which regions have done so. Does any member have a problem with our asking for that information?

**John Home Robertson:** What does that mean? There is no way of detecting genetically modified material in products, so the exercise is fairly meaningless.

**The Convener:** Perhaps that is why "GM-free" is in quotation marks. We shall ask for the information that Bruce Crawford seeks.

The third item is a further letter from the Executive on the points about language training that were made at our meeting on 28 March. I think that all members had concerns, but Irene Oldfather and Dennis Canavan were particularly concerned. The response certainly has much more information than we have previously received.

**Irene Oldfather:** It is helpful to have such details, which we should probably have received the first time round rather than the scant information that we did receive.

I note that the number of pupils who sit modern language exams is decreasing. I think that that is the overall trend. I would like to have considered the matter in a little more detail if the committee had had more time, but doing so may be difficult, given our current work programme. We may want to keep the issue on the back burner.

**The Convener:** Yes. Perhaps we could park it for the future.

**Dennis Canavan:** The information that has been provided is certainly more comprehensive than the information that the Executive initially supplied, but I am not sure that I am 100 per cent satisfied with it. I recollect that the Executive made an earlier claim that a huge proportion of primary pupils are learning modern languages, and I thought that we asked for information on the standard to which they are learning those languages. However, I am content to read the recent reply in more detail. If I am still dissatisfied with it, perhaps I will pursue the matter through parliamentary questions.

**Irene Oldfather:** We could keep the issue on the back burner and return to it.

**Dennis Canavan:** Yes.

16:45

**The Convener:** The fourth item is correspondence from the Executive relating to the points raised by members during consideration of the council agendas at the previous meeting. I do not think that there is anything contentious about that.

**Phil Gallie:** I would like to add some information. Last night, round about midnight, the talks on the fishery fuel situation collapsed around arguments about engine size and engine replacement, and it would appear that the discussions have come to a grinding halt.

**Irene Oldfather:** Well, now we know what Phil Gallie does at midnight. He tunes in to the European news reports.

**The Convener:** That level of dedication is just amazing.

**John Home Robertson:** He has an anorak somewhere.

**The Convener:** The fifth item also concerns Phil Gallie. It is a request from Phil asking that the House of Lords European Union Select Committee's inquiry into further enlargement be flagged up to members. The terms of reference for the inquiry are included in my report. Bruce Crawford has left me a note saying that he would like to know whether the Scottish Executive is responding to the inquiry. Phil, is there anything else that you would like to add?

**Phil Gallie:** I flagged up the issue to the clerks because I thought that it might be of interest to other members of the committee. Whether we would consider making a submission is one thing, but I certainly think that we should bear witness to how the inquiry progresses and what is said. Bruce Crawford's question is valid; I would like to know whether the Scottish Executive is making a submission.

**Irene Oldfather:** The House of Lords European Union Select Committee often does some good work, and the call for evidence is something that we should watch closely, because the information that comes in as a result of that could be informative for us in Scotland. Quite a bit of information could be collected on foreign direct investment and trade, for example, and that could be of use to this committee in disseminating information to business in Scotland and to the Enterprise and Culture Committee. I would certainly like to keep a watchful eye on that useful work.

**The Convener:** Are members happy to inquire as to whether the Scottish Executive is responding, and if so to see what that response is, and also to keep a weather eye on the progress of the inquiry?

**Members** *indicated agreement.*

**The Convener:** Irene Oldfather requested information on the plan D conference organised by the Basque Parliament on 11 and 12 April. That information has been circulated, and we thank John Edward from the European Parliament office in Scotland for providing that information. Irene, do you have any specific comments?

**Irene Oldfather:** Not really. It is clear that evidence is accruing across Europe in relation to plan D, and the conference is a significant piece of work. The Assembly of European Regions has also produced a significant piece of work with some recommendations relating to young people, which I think this committee would be able to sign up to. We have said that we would, at some point, put together a response to the communications strategy, and although the conference is slightly different it is interesting to see what kind of information comes forward from countries across Europe. I am happy to note that at this point in time.

**The Convener:** We will also note and keep tracking petition PE804. We have not yet had a response from Mr Bradshaw, the parliamentary under-secretary of state at the Department for Environment, Food and Rural Affairs, so there is nothing further to report.

**Dennis Canavan:** Surprise, surprise.

**The Convener:** That brings us to our final agenda item, the UK Government's draft national

strategic reference framework and our response to it. We agreed at the beginning of the meeting to take that item in private.

16:49

*Meeting continued in private until 17:31.*



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