

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 6 June 2006

Session 2

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

9th 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:

Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
John Ferguson (Scottish Council for Voluntary Organisations)
James Fowle (Convention of Scottish Local Authorities)
Donald MacInnes (Scotland Europa)
Councillor Alison Magee (Convention of Scottish Local Authorities)
Councillor Corrie McChord (Convention of Scottish Local Authorities)
Phillip Raines (Scottish Executive Enterprise, Transport and Lifelong Learning Department)
Alan Wilson (Scottish Council for Development and Industry)
Allan Wilson (Deputy Minister for Enterprise and Lifelong Learning)

CLERK TO THE COMMITTEE

Alasdair Rankin

ASSISTANT CLERKS

Emma Berry
Nick Hawthorne

LOCATION

Committee Room 6

Scottish Parliament

European and External Relations Committee

Tuesday 6 June 2006

[THE CONVENER opened the meeting at 14:03]

Items in Private

The Convener (Linda Fabiani): Good afternoon and welcome to the ninth meeting of the European and External Relations Committee this year. I have received apologies from Charlie Gordon, who is attending the Edinburgh Airport Rail Link Bill Committee. Dennis Canavan will be late because his St Andrew's Day Bank Holiday (Scotland) Bill is being discussed by the Enterprise and Culture Committee. John Home Robertson has given his apologies in advance for having to leave early.

John Home Robertson (East Lothian) (Lab): But not yet.

The Convener: No, not that early I hope.

Our first item is to consider whether to take in private items 8 and 9, which are discussion of the issues involved in the structural funds inquiry and discussion and agreement of the committee's response to the European Commission's white paper on communication policy. Are members agreed on that?

Members indicated agreement.

Structural Funds 2007-13 Inquiry

14:04

The Convener: The second item of business is the final evidence session in the committee's inquiry into the Executive's plans for future structural fund programmes for 2007-13. We have three separate panels of witnesses today, so it is a pretty packed meeting.

I welcome our first panel of witnesses. From the voluntary sector, we welcome John Ferguson, the director of development programmes for the Scottish Council for Voluntary Organisations. From the Convention of Scottish Local Authorities, we welcome Councillor Corrie McChord, the vice-president of COSLA and the leader of Stirling Council; Councillor Alison Magee, the convener of Highland Council; and James Fowlie, the environment and regeneration team leader.

We have a heavy agenda and a lot of witnesses, so I will invite each witness in turn to make a few introductory comments—I stress the phrase “a few”. I think that we will get more out of the session through questioning, so I would be grateful if witnesses could keep their comments to two minutes at the most, so that we can make best use of the time that is available.

Corrie, are you going to speak on behalf of the three COSLA witnesses?

Councillor Corrie McChord (Convention of Scottish Local Authorities): If you do not mind, I would prefer not to speak for Alison Magee. The situation in the Highlands and Islands is a little bit different, as the region is assured of transitional funding through the statistical regional effect.

The Convener: Okay. Let us start with COSLA, and you can work out how to proceed from there.

Councillor McChord: Thank you for inviting us to give evidence. This is the first opportunity that we have had to discuss the matter with members of the Scottish Parliament. We are slightly disappointed by that, as we think that the consultation process could have been carried out in a reasonable way through the structural funds forum. We have been used to that in the past, but we have not been given that opportunity this time. I will not question the reasons for that. Other colleagues in the voluntary sector and the colleges also feel that they have not really been consulted on the matter and that it has been discussed behind closed doors. At least, that is the impression that we get.

COSLA is a lobbying organisation, but it is sometimes difficult for us to lobby on behalf of all our members. Their needs are diverse because of the disparate nature of the regions of Scotland,

and it is difficult to present a unified opinion. Nevertheless, we would argue that local government has a role to play in the structural funds forum in representing community and local democratic interests. I do not think that the Lisbon agenda can be implemented without local authority involvement.

We have heard about the idea of co-financing and streamlined funding, and we understand that there has been a cut in the structural funds that are available. We accept that and would not want to overbureaucratise a shrinking fund; nonetheless, we think that many of the problems are merely managerial and that we could come to an arrangement with the Scottish Executive. However, we do not know what the Executive's thinking on a model is and we could present a model or models that might not be acceptable. Therefore, we would prefer to work in conjunction with the Executive on this one.

Councillor Alison Magee (Convention of Scottish Local Authorities): The issues in the Highlands and Islands are the result of a difference in emphasis. We, too, are keen for local government to continue to be involved in the process. We feel that the Highlands and Islands European partnership has worked well, and we would be concerned if there were to be any serious hiatus as we move towards the transitional funding.

We have had a fairly integrated programme. One of our specific concerns as we move forward is that agriculture and fisheries will be part of a national programme and not part of a Highlands and Islands regional programme. We are concerned that we should continue to have that linkage and that input. We have a good track record on prioritisation, through the Highlands and Islands Transport Partnership, for example. We would be very interested in considering a community planning model to take this forward, as there is a strong tradition of partnership working in the Highlands and Islands. We have a good working relationship with Highlands and Islands Enterprise through our programme monitoring committee and more broadly.

In the Highlands and Islands, there is still a need to tackle issues of remoteness and geographic disadvantage. In that context, we have a specific concern about the use of the Scottish index of multiple deprivation as an indicator. Our concern is not that it is not a first-class indicator of concentrated deprivation, but that it highlights no deprivation whatever in the Western Isles, Orkney, Shetland and Moray. Therefore, we perhaps need to consider a slightly different format that recognises issues of geographic disadvantage, fuel poverty, and so on.

We are interested in carrying forward our good track record and having a strong presence in the process, as Corrie McChord described.

James Fowlie (Convention of Scottish Local Authorities): I draw the committee's attention to the three bullet points on the first page of our submission, which state:

- Local Government must be a lead partner involved in the design and development of the Scottish programmes ...

- As part of our work on how Local Government can contribute to a reformed public sector, we will consider how community planning partnerships, or other alternatives, could act as lead organisations for the distribution of Structural Funds at the local or regional level ...

- We believe that there is a real risk that single stream funding through national agencies would diminish the additionality, transparency and accountability of structural fund activity."

The Convener: Before I move on to John Ferguson from the SCVO, I note Councillor McChord's comments about the lack of consultation through the structural funds forum. Although that issue is for COSLA and the Executive rather than the committee, I have taken a note of it and we will no doubt raise it with the minister later this afternoon.

John Ferguson (Scottish Council for Voluntary Organisations): I find myself in the slightly unusual position of agreeing with COSLA. We in the voluntary sector feel that there has been insufficient consultation to date on the impact of the changes on the voluntary and community sector, which has been the biggest customer of European social fund moneys in Scotland. We made that point to Allan Wilson at a recent meeting with him, but we would appreciate it being reinforced. That view is held not just idiosyncratically by the SCVO but by the voluntary sector structural funds forum, which includes representatives from about 40 different organisations whom we meet regularly to discuss fears and perspectives.

One of the biggest concerns is that the lack of consultation has led to a non-appreciation of the urgency of resolving what will happen in future. A transition problem is coming because there is little doubt that we will not be ready to deliver structural programmes from January, given the track record of what happened during the previous transition between programmes. The voluntary sector has a deepening concern that many organisations that are currently well placed to deliver on the economic inclusion agenda—in particular those that deal with harder-to-help and harder-to-reach people—will lose their position and will be unable to maintain their capacity from January onwards. They should have been making applications almost now for funding that will kick in during January. Although some multi-annual funding will

continue, not as much such funding is available as the programme has been winding down.

The voluntary sector in rural areas wants to see a greater emphasis on beyond-the-farm-gate policies under the common agricultural policy. Clearly, we need to look for ways of reinforcing communities and community life in rural areas by providing complementary investments in communities alongside those that go into agriculture and fishing, so that we have people in those communities who can be engaged in other types of economic activity.

We have concerns about the proposal that funds should be linked to community planning. In our experience, community planning structures are still variable across Scotland. In some areas, the voluntary sector maintains that its involvement is tokenistic because it is not involved in the real community planning issues.

A final concern is that the Scottish Executive's proposals, and indeed the United Kingdom Government's proposals, are potentially too broad. The apparent lack of spatial targeting might well lead to a one-size-fits-all policy under which everyone can apply for funds in some shape or form, but those funds will not necessarily get to the parts that other beers do not reach, so to speak.

Finally, let us not forget that the fundamental reason for structural funds is to respond to situations in which there is clear evidence of market failure. Our deepening concern is that, if the structures that are put in place use co-financing models that link the funds too closely to domestic spending, the voluntary sector and social economy might find themselves marginalised. In that situation, many of the organisations that are best placed to help harder-to-help and harder-to-reach people might no longer even exist.

My final comment—

The Convener: This will be the third final comment.

John Ferguson: Sorry, I know that I rattle on.

Another big absence is that neither the Hall Aitken report nor any of the other paperwork to date discusses the 1 per cent global fund, which specifically allows smaller community and voluntary-led organisations that are not big employers to access structural funds. As happened with the key fund and the direct grant fund in the past, there is no currently no evidence of that in the paperwork. I would be delighted to be proved wrong, but I cannot see evidence of it.

14:15

The Convener: I will now allow questions from committee members. If any of the four members of

the panel want to respond to a question, they should indicate to me so that I can try to ensure that everyone gets a say.

Mr Jim Wallace (Orkney) (LD): As a preliminary, can Councillor McChord give us some factual background on what discussions have, or have not, taken place within the structural funds forum over the past 12 months? We will then know what to ask the minister about.

Councillor McChord: I do not think that we have ever seriously discussed the future funds. When we last had a meeting some months back, we pressed the minister to ensure that we would be as fully involved as we were when the new funds were introduced, but that did not happen. We received apologies for people getting things wrong that led us to believe that things had not happened for real reasons. However, the fact is that there was no consultation at all. There was more consultation in a varied way with the regions of Scotland in that there were local fora to which people could come forward and give evidence. However, as far as COSLA is concerned, we were never asked at any time to add to the discussion.

The Convener: Irene Oldfather has a supplementary question on that issue.

Irene Oldfather (Cunninghame South) (Lab): When we put that point to the minister this afternoon, he will probably reply that fora were set up across Scotland to involve all stakeholders. Presumably, individual local authorities contributed to those fora. Is that the case? I want to ensure that we get our facts right before we take on the minister.

Councillor McChord: At that time, COSLA and its officers had not been invited to be represented on the fora. At a meeting with the minister, we were assured that that would be made good and that COSLA officers would be asked to attend, but I am not sure that they were ever invited.

James Fowlie: We were invited after that point.

Irene Oldfather: John Ferguson said that he felt similarly disfranchised from the process.

John Ferguson: Yes, that was the feeling from the voluntary sector in our consultations. Many of our colleagues were involved in the stakeholder groups that were established by Hall Aitken, the various programme management executives and the Executive structural funds division. The general feeling that was reported back by my colleagues in those stakeholder groups was that they felt—this is very subjective—that the conclusions were a bit of a done deal. They felt that the stakeholder meetings did not truly address the issues because the decision had already been taken that domestic spending objectives would take priority along with the link to the Lisbon

agenda. The need for that European perspective is accepted, but colleagues felt that there was an insufficiently sophisticated analysis of the impact of what everyone accepts will be a reduced level of funds from January onwards.

Irene Oldfather: From the evidence that we have taken so far and the discussions that the committee has had, I can see real advantages in using the community planning model to restore some local democracy to the situation. However, not all my colleagues are persuaded of that and I note that Mr Ferguson said that the approach to the community planning model is variable across Scotland. Given that variation, is that a useful way to go? Are there areas in which good practice is taking place that could be shared? Given the timescale, is it realistic to think that the community planning partnerships could provide the implementation and delivery under a co-financing model?

Councillor McChord: I can speak only for lowland Scotland, but our past experience was that the programme management arrangements in Scotland were well supported by the Commission. As members will know, we partly hosted the European Parliament's Committee on Regional Development, which was very impressed by the way in which programme management arrangements were able to ensure that most of the money was spent and by the bottom-up process, which was transparent and accountable.

We suspect that any co-financing arrangements will be accountable only upwards to the Scottish Executive rather than downwards. Such arrangements will not be transparent and will not iron out difficulties such as disparate regions, regeneration issues and so on. The Lisbon agenda cannot work unless we invest in those areas and get incubation up to scratch.

John Ferguson: I reinforce that. The community planning model may have a part to play in the process, but it should not be a major part. The programme management executive model was very transparent. It created a partnership approach and forged partnerships that did not exist before. The system was also transparent. Applications should be judged on their own merit, on their fit with Lisbon and so on.

Irene Oldfather: The problem is how we get it down to local level, which everyone says they want to do. We know that we will not have the number of programme management executives that we have had in the past—there is no way that that will happen. The PMEs came to the committee last week and they accept that change is inevitable. If we are working with a Lowlands and a Highlands model in Scotland, how do we maintain a local perspective without going down

the road of community planning? What is the alternative?

Councillor Magee: I accept that community planning partnerships are variable, but they have the potential to meet the ideal of subsidiarity. At our most recent programme monitoring committee meeting in the Highlands and Islands, we had a serious discussion about the future delivery of the programme. It was late in the day because it was only three weeks ago, but we had a discussion. There was unanimous support—certainly among the Highlands and Islands councils—for exploring a community planning model.

Another point about which I and quite a lot of other people feel strongly is that there is a considerable amount of bureaucracy, fragmentation and initiative-itis, if you like, in relation to regeneration funding. We want a model that uses a community planning partnership to bring together the strands of funding, whether they come through the Scottish Executive Environment and Rural Affairs Department, structural funds or whatever, so that there is a much more integrated fund to deal with rural deprivation, peripherality and so on. There are currently small pots of money such as the rural service priority areas initiative, under which you get £100,000 for a year. The bureaucracy involved in trying to deliver something is almost more than the money is worth. That issue is slightly tangential to the structural funds issue, but it is part of the same argument.

Bruce Crawford (Mid Scotland and Fife) (SNP): That is a useful description of some of the issues with which we are dealing. If I am getting the picture right, I gather that there is a reaction against the co-financing of projects through—for want of a better word—quangos or enterprise bodies. What is COSLA's view on the accountability of how the funds are spent and on democratisation of the process to ensure that there is not a democratic deficit? By emphasising those principles, we can ensure a bottom-up approach. Corrie McChord will not be surprised to hear that, as a former local authority leader, I have some sympathy with what he is saying. I am trying to give him an opportunity to expand on his concerns.

Councillor McChord: Obviously, we respect the notion of democratic accountability for ourselves as well as others—it does not stop at the door of local government. We must ensure that the voluntary sector and suchlike are also involved in the process; otherwise it is not worth doing. We are not asking for local government to run the funds. We are saying that we want a seat at the table alongside others. If the community planning partnership model is to be adopted the first thing that we would accept is that the status quo will not

prevail: there will not be 32 community planning partnerships dealing with European funds. That would be crazy. I can say that, although some of my colleagues might not admire me for doing so.

I would like to get some indication of whether community planning partnerships are a runner and, if so, how many there are likely to be. I have a figure in my own head—it is not much higher than two. Organisations such as the East of Scotland European Partnership and the Clyde valley partnership have put in submissions to the Scottish Executive, which have been solicited, to say what kind of model they would like. Members can think about it themselves. What is it possible to do with a reducing fund and higher levels of bureaucracy? To some extent, we are being led down the garden path.

Bruce Crawford: I found one sentence in COSLA's submission intriguing, and I want to tease out what it means. It states:

"In many deprived areas, infrastructure developments are still a necessary prerequisite for other activities in support of Lisbon targets."

That might seem obvious to you, but what do you mean by "infrastructure developments"?

Councillor McChord: The Lisbon agenda has simplistically been viewed as building on success, targeting resources on the successful models and replicating them, but we cannot afford to do things that way in Scotland. Research and development is a fine thing—it is much better than just having the screwdriver industries—and with it, concerns are more likely to stay in Scotland and operate sustainably. However, the bottom line is that we need the infrastructure to support that. Infrastructure simply means good housing, good leisure facilities, the provision of good training skills and a whole range of other things that create the incubators for development in delivering the Lisbon agenda.

Councillor Magee: And good transport links.

Councillor McChord: Yes, good transport links—there are a number of things, most of which local authorities are engaged in providing. They all help to ensure that the environment is right for that incubation.

Bruce Crawford: That is what I expected to hear, and that is why I am disappointed to read on page 10 of the Executive's submission:

"so, for example, in contrast with past Structural Funds periods, we will be highly restricted in our ability to support ... infrastructure projects in transport, tourism or economic development".

I understand the point about the funds shrinking, but I acknowledge your plea that we need to continue to support infrastructure projects. I realise that, at some point, the changes will have to

become a reality—the funds cannot go everywhere—but there seems to be a gap in expectations, which we need to think about.

Councillor Magee: Investment in transport and information technology infrastructure has been critical to the progress that has been made in the Highlands and Islands, but there is still a way to go. The fund is reducing, so additionality becomes extremely important. That goes back to the point about co-financing and the potential issue about whether that additionality can be secured.

The current system allows for flexibility. If, for any reason, a project does not go ahead or is delayed, there is the flexibility to vire the funds into other priorities so that they are not lost. I am not clear about how that would be done under co-financing. There is an issue of accountability there, too.

Bruce Crawford: I have a question for John Ferguson. Your paper was very useful, particularly the part that broke the figures down with respect to getting 75 per cent of current funds and gaining 50 per cent of the potential impact. However, I am not convinced that your submission gave me a picture of the reality of what that means for your clients and customers—those whom you serve. Your paper discusses youth issues and so on, but it would be useful to get some examples of the things that might be lost if we do not get the funding right.

John Ferguson: West Fife Enterprise would be lost, for example. It works in a former coal-mining and heavy engineering area as an intermediate labour market training organisation. The company has been involved with structural funds for about 20 years and has done some fantastic work with people who would otherwise certainly be economically excluded—they had been before. The company has spent 20 years getting people into alternative kinds of work, including IT, communications, call centre work or whatever. It has done so relying entirely on the support of structural funds, to the tune of 45 per cent. There has also been partnership work with Scottish Enterprise and the local authority.

I recently met Alan Boyle, the general manager of West Fife Enterprise, who happens to sit on the board of the Objective 3 Partnership on behalf of the voluntary sector, at our request. He is looking down the wrong end of closure at the moment. I do not say that to frighten his colleagues, but he needs half the money from January onwards, and he has no clue how he can run his organisation in the way in which it has been run, and how he can help those people, without some form of funding. He is seeking some sort of transitional arrangement, as was put in place on the previous such occasion.

Bruce Crawford: The phrase “déjà vu” comes to me at this point. I am old enough to remember the end of the urban aid programmes and the problems that were created at that time. We seem to be facing a similar situation now.

The first thing that will happen is that organisations such as West Fife Enterprise will beat a path to local authorities’ doors, or other public sector doors, to get those moneys mainstreamed into their funding. Unless we start to get a picture of that and consider how to manage the process, we will be in danger of throwing the baby out with the bath water, to an extent.

14:30

Irene Oldfather: There have been a number of changes to regional aid programmes over the years. Whenever there is a change we hear from the voluntary sector and local authorities about the difficulties and unpredictability of the transitional arrangements. Usually, we manage to find some kind of last-minute solution, so I wonder whether Mr Ferguson is involved in discussions with the Executive on transitional arrangements.

John Ferguson: We raised that issue at a meeting three weeks ago with Allan Wilson and Phil Raines, who is currently involved in the Executive’s structural funds division. When we put the matter on the table, I think that that was the first time that the minister had even considered it. I am seeking another meeting with Phil Raines to explore further the possibility of obtaining transitional funds. The minister did not shut the door on that. He recognised that there is a real and present danger and he wants ideas from us.

When a similar funding situation arose six years ago, the fund that was established was called, I think, a vulnerable project fund. If I remember rightly, the fund had between £10 million and £12 million. The funds to organisations were regarded, technically, as a bridging agreement, and they were available until organisations could access the structural funds; once they became available, the bridging money was paid back—it was possible to apply for the structural funds retrospectively. The crucial issue was that the organisations had to keep their staffing bodies on board, otherwise they would not have been able to deliver the help that they made available, and their body of knowledge might have deteriorated.

Irene Oldfather: I have one further point, to which I think both Councillor McChord and John Ferguson referred, which is how the Lisbon agenda is balanced with what I would call the social economy. I agree that competitiveness is important, but we must build a social infrastructure into that. Again, some colleagues do not agree

with me on that point, so I am interested to tease out a bit more on your views about the importance of the social economy to Scotland. One of the big questions is what that means for the voluntary sector and how we target the money.

John Ferguson: That is a good and apposite point. It links to the public service reform agenda and dialogue with which Mr McCabe is proceeding, I believe. The voluntary sector’s view is that the Executive’s aim of full cost recovery in the field is laudable and right. However, the acceptance and application of that principle varies across local authorities in Scotland. Many of our members report that they have healthy, sensible and realistic contracting agreements with the procurement departments of local authorities. However, other members say that support is clearly not at the level at which they can achieve sustainability as social economy deliverers of public services. That will remain the case until it is understood that the organisations have fully transparent accounts and a clear need for full cost recovery.

The best example is the Church of Scotland debate a couple of years ago on what should happen with the care of the elderly, of which we are all well aware. The same reality for voluntary sector organisations exists in smaller pockets all over Scotland. Of course, we would seek to work with COSLA in that regard and would try to find a more efficient way of delivering public services, which in turn would create the sustainability of the social economy organisations that deliver those services.

The Convener: The voluntary sector in England feels that it has been disadvantaged by the co-financing system there over the past year or so. What is your view of that?

John Ferguson: We agree with that view. As members will know, we have sister councils in the National Council for Voluntary Organisations, and we meet them. It is clear that what was a good aim fell at the first fence. The money was not forthcoming for the voluntary sector. If I remember correctly—I may quote this wrongly—there were something like 80 schemes or pilot projects in England, but only five or six received funds. That is how poor the response was. The feeling was that the municipal authorities absorbed the funds. I am not suggesting that the funds were badly used—valuable things happened—but the voluntary sector did not get to the table. I think some crumbs perhaps fell off the plate.

In Scotland, we managed the direct grant programme in partnership—that addresses various points about bottom-up. It was a small fund but it was heralded by Brussels as the most effective global grant delivery programme in Europe to date. It was local social capital and

objective 3 funding leading into direct grants; it was simple and we were the technical assessors. People from enterprise bodies, local authorities, local communities and local voluntary organisations decided whether local applications should go forward. That worked well, about 400 small grants were given out and the impact was enormous. Whole villages were changed for £20,000. Such programmes are the only way that that can happen.

There is evidence to suggest that if you have a proper, equitable, co-financing model—different from but slightly mirroring community planning principles—as a separate vehicle, with larger sums of money, you will get much more social capital and much more buy-in from communities, especially if the communities have a say in who gets that money at the local level. There is not enough faith that that happens in the community planning process at the moment.

The Convener: Would anyone from COSLA like to comment on that?

Councillor McChord: The community planning process is developing; we had a COSLA seminar about it this morning. It is much more embedded in the thinking of partners in local government now. As far as my area is concerned, in terms of people, communities and individuals in the community, it is also much more embedded in the regeneration processes. That is the key. Irene Oldfather asked about the Lisbon agenda. We cannot deliver “A Smart, Successful Scotland” unless we target areas of need and deprivation and bring them up to standard. It is a no-brainer. We have got to invest in those communities. The Lisbon agenda is about that; it is about sustainable communities, just as it is about being smart and successful, and encouraging research and development. That is important to us. I would hope to sign local government in general up to those high principles. The job of ensuring that the additionality goes to areas of need rather than to the best application is one for COSLA. I think we can do it.

Phil Gallie (South of Scotland) (Con): I am interested in that latter comment—I shall come back to it in a second.

The Lisbon agenda was really about improving the economic performance of Europe so that the social side would benefit. Inevitably, there will be a reduction in structural funds. To pick up your comments, Mr McChord, development goes hand in hand with social change. Would it not be better to wrap the social fund and the regional development fund into one package and to loosen the ties on the way in which it is spent, with a view to achieving economic development in the first instance?

Councillor McChord: I can take that to some extent, but I do not believe in the trickle-down effect. It does not work for communities that are represented. Stirling is a successful area that is attracting new industries and new services, but most people are commuting in. We need to get local labour to a point at which it can challenge for those jobs and not just the jobs at the cheap end of the industry. The trickle-down effect does not work; that is not what Lisbon is about. Yes, it is about being successful and attracting new industries and new people into industries, but we have got to incubate that for our purposes in Scotland.

Phil Gallie: We talk about deprived communities. I used to be involved with priority treatment areas—my deprived area was north Ayr. Masses of money has been pushed into north Ayr in particular but, at the end of the day, I cannot see a massive return on it. The circumstances are still much the same, there is no involvement and there are still pockets of unemployment. People in north Ayr might have benefited if we had spread the load a little and if more prosperous structures had been set up with that money.

Councillor McChord: I cannot speak for North Ayrshire, although my colleague David O'Neill, who I saw earlier, would have something to say about that.

Phil Gallie: North Ayr rather than North Ayrshire.

Councillor McChord: North Ayr, sorry. I cannot say anything about that. The targeting is important as well. People are losing out because they do not have the appropriate training and skills and are unable to obtain them unless we invest in them.

I have represented Raploch for years. Although Stirling has successfully changed from the small, backwater, market town of 25 years ago to the subregional centre that it is now, people from Raploch—especially males under the age of 30—still do not get jobs.

John Ferguson: There is a danger: what may turn out to be the last batch of structural funds may be too focused on economic development and creating jobs and may therefore exclude some people from becoming job ready or even training ready. Employers tell us that it is not just confidence and skills that are lacking, but opportunities. Lots of people in the tougher areas simply do not get the opportunities.

I am suggesting a multispread of opportunity, but the danger of co-financing, and of our not ensuring equal access to funding, is that the indigenous people from tough areas do not even get their feet under the table. If the main driving force is to get people into jobs, those people are so far away from being able to step into jobs that

they will not be focused on by the colleges, the intermediate labour market people, and so on.

That touches on the rural agenda too—not only in the Highlands but throughout Scotland. I travel across Scotland; I am in every city every month, and some of the townships as well. I have no fear of this, but it is striking how many of the young people in the hospitality industry—at the receptions, in the rooms and so on—are from eastern Europe. It is great to see that we are a cosmopolitan country, but what is happening to the young people of Scotland who traditionally worked in the hospitality industry? Many of them cannot compete with young people who have degrees and who are multilingual. I do not mean to sound discriminatory, but we need to find a balance so that our young people get the opportunity at least to become training ready.

Phil Gallie: I do not disagree with that, and I acknowledge that we have to train and educate our young people, but we are talking about the structural funds and I am querying whether providing such training and education is a task for the structural funds or a task for the Government. If this Government is committed to education and lifelong learning, it should be looking into the issues that you have just raised. Structural funds should be left for other things.

John Ferguson: If other funds were available.

Phil Gallie: The expenditure available from Scotland's budget is twice what it was 10 years ago.

Councillor Magee: As I said before, the effectiveness of structural funds in improving the IT and transport infrastructure in the Highlands and Islands cannot really be overestimated. There is IT access to training, and physical access to training and skills—I do not think that you can separate the two.

The Convener: For the moment, we will leave aside what should be nationally funded and what should be funded through structural funds.

Mr Wallace: I do not know whether the witnesses have had the opportunity to see the written submission that the committee received from the Executive. I will quote one passage:

"In future, one PME could cover the programmes in the Highlands & Islands, and another the programmes in Lowlands & Uplands Scotland. For the first time, these new bodies would be selected through a competitive tendering process. The ... bidders would be expected to demonstrate how the diverse needs of different localities within the region would be balanced with the need to support the development of the region as a whole. Local representation in delivery and in the Programme Monitoring Committees would be essential."

Have local authorities or the voluntary sector had any thoughts about whether you would be willing

to be involved in a competitive tendering process for a PME and, if so, what kind of consortium would you be willing to contribute to?

Councillor McChord: You have the advantage over us: you have read that submission and we have not. We might have been able to respond more articulately if we knew what was going on.

Mr Wallace: I am sorry—I was not trying to trap you.

Councillor McChord: No, I know.

Mr Wallace: It is just that it seems a novel approach and I wondered whether you had had the chance to consider it.

Councillor McChord: Our basic approach up to now has been to ask the minister and the Scottish Executive how they see the models, and to say that local government could perhaps contribute to the models if the Executive tells us what it wants. We suspect that the Executive does not want 32 PMEs and we hope that it wants more than one. If we knew the Executive's thinking, we could co-operate.

We only want a seat at the table and we do not want to deprive others of a seat—people in the voluntary sector, people in the colleges, or, if we consider bottom-up accountability, people in the communities that we represent.

14:45

John Ferguson: We welcome the proposal. We have discussed it at length and feel that it makes good business sense: if there is half as much money, there should not be as many PMEs because that would just leak money. Statistically, because the Highlands and Islands Partnership Programme operates in such a large area, it is in the right place to deliver programmes for 10 per cent of Scotland's population.

A lowlands PMC makes eminent sense. We should learn from what went before and not throw that baby out with the bath water. We should put together a model that provides opportunity for a continuation of a challenge fund with potential for an element of co-financing and commissioning work to ensure spatial targeting and so on. The voluntary sector is up for a continuation of what has proved to be a valuable structure that was heralded by the European Commission as one of the most sophisticated delivery models in Europe. Why would we throw that out?

Councillor Magee: I think that European regulations require there to be a tendering process, or have I misunderstood the question?

The Convener: That is right.

Councillor Magee: I would be very surprised if, for example, the HIPP did not put in a bid.

Councillor McChord: At this point in time, we can just take the same approach for COSLA and lowland Scotland.

Mr Wallace: Related to that, lowland and uplands Scotland—an interesting title—is a diverse area from Aberdeen and Grampian to the south of Scotland and includes urbanised parts of central Scotland. Have you any thoughts both from local government and voluntary sector points of view about how you would strike the right balance between urban and rural in a challenging area?

Councillor McChord: Some of us have to do that in our local authority areas anyway—my area is probably a microcosm of the dilemmas that you describe. However, COSLA has been teased by greater challenges than that. If we knew what we were trying to achieve, we could propose acceptable models that were accountable, had leverage and transparency and created bottom-up processes. We would also be able to include strategic elements of the Scottish Executive's agenda. We do not deny the hierarchy and we support it, but there is a balance to be struck.

John Ferguson: Our rural team is based in Inverness, but it does not face only the Highlands; it looks to capture best practice in rural, voluntary sector and social economy activity anywhere in Scotland. It does that effectively from Inverness and reaches into Dumfries and Galloway and the Borders. It is even planning a rural conference in one of the Western Isles in the autumn. Scotland is not such a big place in that regard.

We are keen to find ways to develop that dialogue because as I am sure members are aware, rurality is part of SCVO's strategic platform. We seek to represent best practice in voluntary, community and social economy organisations in rural areas, whether they are in the Highlands, South Lanarkshire, South Ayrshire or wherever. The whole principle for us is that whatever social capital practices we are able to develop in an urban society—it is, of course, a two-way learning street—they should be transferable and able to be married to rural society, but with specific attention to distances and population density in deference to rural reality. Practices in contracting, community involvement and democratic participation should be the same.

Mr Wallace: I have a final question for Councillor Magee. I fully understand and agree with your point about the deprivation indices, which are good as far as they go, but they are not adequate. Will you elaborate on the extent to which you think money under the existing structural funds programme is not as well directed as it might have been and how concerned you are

about that in the future delivery of structural funds in the Highlands and Islands?

Councillor Magee: Structural funds have been delivered well in the Highlands and Islands. However, we would be concerned if the Scottish index of multiple deprivation became the benchmark for future delivery. That would be a problem not just for structural funds because problems are associated with the supporting people fund and various other income streams.

When we consider how the structural funds are currently targeted, we see that they are targeted at remote areas of geographical disadvantage—at islands on the edge of Europe, if you like.

I am not clear about whether the Scottish index of multiple deprivation could be adapted to take in those kinds of rural and remote indicators or whether a different kind of indicator is needed to recognise things such as fuel poverty. It is remarkable that fuel poverty is not an indicator, because it is a massive indicator in rural and island areas, as you are all very much aware.

Rather than feeling that the programme has not achieved much so far—because, in many ways, it has—we should feel some concern for the future. If we come up with a one-size-fits-all approach, it might not meet the specific needs of the Highlands and Islands and other parts of rural Scotland. Having said that, the proposal is the best that we have had yet with regard to urban deprivation.

John Home Robertson: This is all very interesting to someone who represents a constituency that has had precious little access to any of those things for a long time even though it contains some quite severely deprived rural and urban areas. That is a problem.

Councillor McChord, you said that the important thing is to deliver support to areas of greatest need as distinct from areas in which there might be the best application of support—I think those were the words you used. That set me thinking. The system has created a sort of subculture of consultants who draft reports, applications and so on. Is there any hope that the new structure will cut out those middle men and make it easier to deliver support to the areas of genuine need that you are talking about?

Councillor McChord: Like the poor, consultants will always be with us.

John Home Robertson: Let us try, come on!

Councillor McChord: Indeed.

The level of consultancy that goes on in my authority frustrates me. There are lots of reasons for it, which relate to problems concerning employment, lack of skills, market rates for certain professions and suchlike. However, I would like

there to be a much more simple process. I was not talking about directing all the funding towards need, but I think that a good proportion of it should go in that direction. Local authorities, with their partners, are quite able to map out those areas and apply funds without the need for too much consultancy, if the system is right. Most of the bureaucracy relating to funds—I believe that the figure is about 90 per cent—comes after the application is made and the funds are paid. It arises as a result of monitoring and so on.

The Convener: I think that John Ferguson would like to make a quick point on this issue.

John Ferguson: You know me too well. We absolutely support what has been said. The simpler, the better. The process has become convoluted, but there is no reason why it should be. There are too many masters, from a bureaucratic perspective. We must cut through the bureaucracy and create a much more straightforward proposition that is easier to apply, monitor and account. That will cut out the fancy consultants.

John Home Robertson: Not all of the bureaucrats are in the public sector, are they?

John Ferguson: No.

Dennis Canavan (Falkirk West) (Ind): Convener, I apologise for not being present for the earlier part of the meeting. I had to attend another committee meeting.

I want to ask about the possibility of funding under the co-operation objective, particularly the potential for cross-border co-operation between Scotland and Ireland, on which I am doing a report for this committee. There is the possibility of some parts of Scotland being eligible for cross-border funding projects. Do any of you have any views on that?

Councillor Magee: We are following up the idea of parts of the Highlands—Skye and Lochaber, I think—getting involved in that transnational programme. A great many of our transnational programmes have been with the Scandinavian countries, such as Iceland. There have been considerable benefits. We have learnt a lot about how other people deal with forest access, roads and so on. There is scope for looking at a programme that includes Northern Ireland and the Republic of Ireland. We are interested in being included in that.

John Ferguson: We are also working with Iceland, Sweden, Finland and Norway in the Interreg programme, finding the best ways to deliver services to rural communities. It is the biggest Interreg programme in northern Europe.

Under the co-operation fund, we work with our sister umbrella bodies in Belfast and Dublin. We

are actively helping the Wheel in Dublin to grow into a representative body for the social and voluntary sector. We will look for ways to develop programmes that are designed to bring social economy players in all three countries together to work on delivering public services from a social economy perspective, to which I have referred.

The Convener: I thank all four witnesses for their evidence, which was appreciated and highly interesting.

With the second of today's three panels, we will explore the business sector's views. I welcome Donald MacInnes, who is the chief executive of Scotland Europa, and Alan—with one L—Wilson, who is the chief executive of the Scottish Council for Development and Industry. I ask both witnesses to make a few introductory comments, after which we will ask questions.

Donald MacInnes (Scotland Europa): Tapadh leat agus feasgar math. I am pleased to be here and I will speak in English, since everybody understands that language.

I appear for Scotland Europa, which represents about 60 Scottish organisations in Brussels. We also co-ordinate European funding for the Scottish Enterprise network from our office in Glasgow. I will speak today mainly as the co-ordinator of Scottish Enterprise's European funds.

Over the piece, we average about £30 million a year in European funding for our projects. We have 300 live projects, which amount to about £90 million of European funding. Altogether, we have about £275 million of projects. We can fund more projects and we have additional projects to which we contribute that are not included in the statistics that I just gave.

As we have heard, the new programme halves the funding that is available to Scotland. As with every new programme, change is inevitable. We are involved in ensuring that the changes that happen add to the efficient delivery of the programme and the programme's flexibility and provide consistency throughout Scotland.

I will give you a couple of examples from the manufacturing advisory service programme and the proof-of-concept fund programme. Currently, we have to submit six applications for the three different PMEs and we have to make 24 claims a year for each project. We deal with 1,200 claims altogether on an annual basis; therefore, a new system that simplifies that bureaucratic structure will be very welcome. We believe that Scotland and Scottish Enterprise will continue to deliver on the jobs and growth agenda and the Lisbon agenda and that the 75 per cent focus on Lisbon for the priority 1 competitiveness is entirely right.

15:00

Alan Wilson (Scottish Council for Development and Industry): Good afternoon. Thank you for giving me the opportunity to be here. I hope that the clerk has received our written submission by now. I apologise for the fact that it was late—I think that it was sent to you on Monday instead of last Friday. I have tried to keep up with the various bits of evidence, but I have not read the papers from COSLA and the SCVO, which were submitted today, nor have I read the Executive's paper, which would have been interesting to read before meeting you.

I draw the committee's attention to one or two of the principal points in our written submission. The first is a declaration of interest. The Scottish Council for Development and Industry receives no core or any other funding through these programmes, although we recognise the benefits that are achieved for communities throughout Scotland. I represent the SCDI on the Scottish European structural funds forum, which is convened by the Executive. Joe Moore, who is the chairman of our Highlands and Islands committee, represents the SCDI on the board of Highlands and Islands (Scotland) Structural Funds Partnership Ltd, and Iain Duff, our economist, represents us on its programme management committee. So we are involved but not as a beneficiary.

In broad terms, our members feel that the current structure and programme delivery have worked well for Scotland. The concepts of additionality, transparency, partnership and accountability have been well illustrated. You might say, "If it ain't broke, why fix it?" However, the debate is about how to deliver funds more effectively to maximise the added value. We have no choice but to face up to the fact that the Highlands is going to have 60 per cent of previous funds, while lowland and upland Scotland will have 40 to 45 per cent of previous funds. This is the time to make changes if changes are to be made.

The proposition for a single-stream funding approach from the Executive to align policy direction with simplification of management arrangements and to reduce expenditure on administration is, on the face of it, attractive but—there is always a "but"—some of our members have concerns about the Executive's proposals as we understand them, the implications for future programmes, and the equitable treatment of small-scale community projects against national projects. You heard some of that from the SCVO in particular.

We caution against radical change in the existing structure. That said, we acknowledge the Lisbon agenda's important objectives in its commitment to promote entrepreneurship,

augment business growth activity and increase productivity. There is a danger of losing the relationships and expertise that have been developed to tackle the existing problems in specific areas if those are subsumed into priorities of national agencies. Although we see merit in retaining one PME for the lowland and upland area, we are a bit worried about the balance between what it does and how co-financing is implemented through the national agencies such as Scottish Enterprise and the local enterprise company network, Communities Scotland, the Scottish Further and Higher Education Funding Council, and perhaps VisitScotland. As Donald MacInnes accepted—if with tongue in cheek—those bodies are not renowned for speedy decision making, so if programmes revert to those agencies, we will have to have some new streamlined systems.

I liked the committee's response to the UK national strategic reference framework. Paragraph 27 was in tune with what many of our members were saying—that there was scope for a hybrid system in which there would be co-funding yet in which a portion of the funding would be left aside for challenge funding.

The Convener: Thank you. I open up the discussion for questioning.

Irene Oldfather: I want to ask Donald MacInnes about how he sees Scottish Enterprise rolling out the new funding programmes. I note from the Executive's response that we are still not quite sure how we are going to implement delivery. It appears that we still have scope for manoeuvre. Do you feel that it would be appropriate for Scottish Enterprise to be one of the community financing organisations? Or is there still an opportunity to go down the community planning route as reflected in the evidence that we heard earlier?

Donald MacInnes: We have not taken a view on what the best arrangements are. As I mentioned, we would like a new system that is efficient, that reduces bureaucracy, that puts more money into projects and that aligns projects with the smart, successful Scotland agenda. Whether that is a co-financing model for us or a hybrid model such as Alan Wilson mentioned, or whether it is a PME for lowland and upland Scotland, it is for the Executive to work out which is the best model. We will work with whichever model is deemed to be most appropriate.

Irene Oldfather: Do you recognise some of the suggestions that were made earlier about the difficulties in terms of transparency and accountability in large programmes and the importance of building that into the system?

Donald MacInnes: We have a number of large projects; we also have a lot of small projects. As I said, we have 300 projects live right now, which are worth £90 million. The average funding per project is not all that much, though, as some of the bigger ones, such as the Scottish co-investment fund, take up big chunks of the money. We have to manage the whole spectrum from very small projects to very large projects. We do that in a reasonably equitable way, from dealing with local enterprise companies at a local level to dealing with priority industries at a Scotland-wide level, where we have to meet the objectives of "A Smart, Successful Scotland". We have to do the whole thing.

Irene Oldfather: I refer Alan Wilson to paragraph 8 of his written submission, in which he states:

"some of our members feel the Scottish Executive has taken a fragmented/catch all approach to meeting and satisfying the Commission's recommendations."

Can you say a little bit more about that?

Alan Wilson: Some of our members feel that there are so many strategies around that, when they are put together, they cover just about every eventuality and every subject. We think that that has perhaps been the case in the Scottish Executive's response. I realise that the Executive has to make a case for funding, and one has to assume that it has taken as much negative consideration into its thinking as possible. The point is that there are so many strategies around that some might say we have motherhood and apple pie when they are all wrapped up into one and put in one document that will cover absolutely everything. We feel that, to fit in with the Lisbon dialogue, perhaps there should be more focus—at this stage, rather than later—on what the Executive's longer-term intentions really are.

Irene Oldfather: You also state in your written submission:

"Looking at the previous programmes it could be argued that schemes and initiatives have been spread too thinly".

How would you go about targeting the more limited resources this time round? What would be your criteria for developing that in thematic, spatial and geographic terms?

Alan Wilson: I am afraid that this is, as you know, a case of on the one hand and on the other. There is no easy answer. From the evidence that we have gathered, I think that people acknowledge that there has been a plethora of schemes and that we are going to have to cut back on the number of schemes.

Through the co-financing element, big blocks of money could well be put into big projects that are implemented by the Government. As I said,

another block of money could go into the challenge funding pot. However, that will become even less localised than it has been until now. Let us say that the money is split in half. Half of 40 per cent is 20 per cent and that amount of money will not go round if it is spread too thinly. To make an impact, we will have to be awfully choosy.

You are probably going to ask me what the difference is between metropolitan and rural. I do not know the answer, but if Scottish Enterprise is to focus its new policy on metropolitan schemes, perhaps an argument can be made that we should do more on rural projects with the challenge funding. Scottish Enterprise could use some of its £550 million to make things happen in metropolitan areas. A balance will have to be struck. We could ring fence money for urban and rural areas at that stage. However, there is no easy answer. We need to consider the possibilities on the one hand and on the other.

Irene Oldfather: One point that has been raised with us is the issue of complementarity in relation to the national programmes on agriculture and fisheries. That relates to the point that you just made about the urban-rural balance. I envisage that it will be difficult to find the correct mix. We will have national programmes on agriculture and fisheries, but we will also have a smaller pot of money that we will have to spread thinly across lowland and upland Scotland. I am wrestling with how we can target that.

Alan Wilson: I agree entirely that that will be difficult. Unfortunately, I did not bring a magic wand, although I wish that I had one. There will be armies of people in the Executive crawling over the issue and trying to work out solutions. However, as just about every other witness has said, the quicker the Executive opens up the issue for consultation, the better. I do not know why the Executive will not, as I understand it, go into consultation mode until next month. The consultation should have started months ago and we should be having a lively dialogue during the final quarter.

Mr Wallace: I ask Donald MacInnes what he thinks of Alan Wilson's comment about ring fencing and his suggestion that the funding to Scottish Enterprise might be directed more at urban areas and challenge funding could be directed more at rural areas. I think that that is a paraphrase of what Alan Wilson said.

Donald MacInnes: Any metropolitan approach from Scottish Enterprise is simply an acknowledgement that much of the wealth creation is now based on cities. However, the intention is not to exclude projects in rural areas; in fact, it is to strengthen those. Therefore, the argument is not one between cities and rural areas. It is perfectly possible to achieve the aim

via the smart, successful Scotland approach, which aims to grow businesses and to develop skills and global connections, particularly by concentrating on the six priority industries that we are developing. I do not envisage an either/or situation.

Mr Wallace: Earlier witnesses raised concerns about tensions—which may be more perceived than real—between the Lisbon competitive targets and what might be described as the social aspects of the structural funds, through which money is targeted at areas of greatest need. I would appreciate your observations on whether such tensions exist. I ask Donald MacInnes to say how well equipped Scottish Enterprise is to take on the challenge.

15:15

Donald MacInnes: In economic development, there will always be an argument about whether to invest in opportunity or in tackling need. Many projects in the local enterprise company network in Scotland are small projects that involve communities. We also support a range of projects that are not led by us. A lot of funding goes into such projects in those ways.

Our main focus at Scottish Enterprise has been on the jobs and growth agenda, which has inevitably led to having to prioritise, although I do not see how doing that deflects from getting involved in local community projects. With the new programme having 40 per cent of the previous funding, it is inevitable that there will be less money for projects and that we will have to prioritise more, which is a challenge for Scottish Enterprise. The principal way of meeting that challenge is by concentrating on the smart, successful Scotland agenda, and we are perfectly up to the job of doing that.

Alan Wilson: It has been said that we will receive 40 per cent of the funding that we have received in the past. I understand that 75 per cent of the new programme funding must be spent on the Lisbon objectives, which excludes spending on infrastructure.

On tensions between social aspects of the structural funds and competitive targets, it is important that some programmes that were previously delivered by organisations under the voluntary umbrella are still given opportunities because I think that some local social programmes will otherwise be neglected. The new structure must be robust enough to embrace such projects through the SCVO. The work of the further education sector, which does a lot of work that is aimed at getting people from deprived communities back into work, must also be considered. I do not think that tension between

social aspects and competitive objectives is the worry. We must get it into our heads that we ain't going to be able to spend as much money as we have done on infrastructure and understand that bridges, roads, ferries, bypasses and bus shelters will not be funded.

Mr Wallace: I have a final question for Donald MacInnes. It was interesting that you mentioned the number of applications that must be made for proof of concept funding. The previous witnesses talked about 90 per cent of the bureaucracy coming after an award is made, which seems to chime in well with what you have said.

Both the proof of concept fund and the Scottish co-investment fund currently have important structural fund inputs. From your observation of how those funds work, do you consider them to be priorities—perhaps I should just say “important aspects”, as we do not want to be in danger of making everything a priority—that should be continued under the new system?

Donald MacInnes: Absolutely. Those funds clearly fit into the innovation agendas at the Scottish and European levels. The European Commission has highly commended the proof of concept fund and the Scottish co-investment fund as leading-edge approaches to innovation, and I would like to think that many projects will come through in the next few years under the framework programmes for research and development, which are follow-up programmes to those funds. The funds have been used almost as seed capital to bring on good innovative projects in the next few years. I think that the process will accelerate and would like to think that if we are back at the Parliament in two or three years' time, we will be discussing the huge growth in applications from Scotland under the framework programmes for research and development and that, as structural funds decrease, we will at least make up for that decrease by increasing our take from the framework programmes.

Phil Gallie: Mr Wilson, you said that the Lisbon objectives were entrepreneurship, competitiveness and growth. How can we best invest the money that is available to achieve such things?

Alan Wilson: We tried to answer that question in our submission, in responding to question 4 that you set. Prioritising is difficult, but we had a go. We mentioned

“Stimulating new company formation and investing in innovation and research & development”,

especially in renewables;

“Improving workforce skills & training”,

especially in tourism; and

“Addressing economic inactivity and regeneration (eg the social economy)”,

which we have discussed. As I have already said, the physical environment—which includes connectivity and accessibility—should be improved. I am not sure that I have answered your question, but we have tried to give headings to the broad Lisbon parameters.

Phil Gallie: Earlier, we heard concerns about our workforce and its ability to compete for jobs in the wider Europe. At present, what deficiencies do you see in the Scottish workforce that we need to address urgently using these funds?

Alan Wilson: I heard you ask a similar question at the previous session and I sort of slipped down in my seat. It is an awfully big question. As was mentioned before, youngsters are coming from the accession countries and making a real contribution to our economy and society, but the question is about where our youngsters are and what they are doing, apart from growing wings and flying off somewhere else. Perhaps they are all in Poland now, but I hope not.

It is about a cultural change. We can have as many schemes and initiatives as we want, but will they make one iota of difference? Youngsters have to leave school, college and university hungry to contribute in some way or other to the best of their ability. I know that schemes exist to address that, and that some have been successful and some not so successful. The answer is that we have to invest more in getting the concept of enterprise into youngsters through the classroom, without using propaganda, and we have to start from the basics. We have been saying that for 20 or 30 years, so there is nothing new there.

Apart from that, I do not think that we can close our borders and say to the accession countries that their people are not welcome here. Our society is already changing and I think that it is changing for the better.

Phil Gallie: We have been saying it for 20 or 30 years and investing for 20 or 30 years, but I have to question whether we are getting a return on that investment.

Mr MacInnes, given the intelligence role of Scotland Europa, can you tell us how other countries in Europe are thinking about the use of the funds? Are they changing their approach? I am talking about the countries that already were member states rather than the new member states, obviously.

Donald MacInnes: Yes, they are. A widespread debate is going on in Brussels, as you can imagine. It is full of talk about the approaches that people are taking. By and large, they are similar to the approaches that the Executive is proposing. Of course, with infrastructure not being encouraged by the Commission, and with so much emphasis being placed on the Lisbon agenda right across

Europe, the proposals that I have seen coming along are very similar to the ones that have been proposed right across the UK.

Two or three years ago, we did a project with North Rhine-Westphalia to compare the use of structural funds in the Ruhr valley and in Lanarkshire, a post-industrial area. The project came up with some very interesting ideas on how such areas move from having a small number of large employers to having a large number of small employers, and on how to encourage entrepreneurship—exactly the sort of area that Alan Wilson was talking about. It was very interesting to see how similar the approaches were in the Ruhr valley and Lanarkshire. We will probably do an update of that project to see whether there has been any divergence in the ways in which those two places have gone; I suspect that we will find North Rhine-Westphalia saying the same things that they are saying in Lanarkshire about the need to invest in innovation, young people, entrepreneurship and green technologies and all that sort of thing.

Bruce Crawford: How much has the Scottish Executive asked you to help it using your knowledge and understanding of the state of the economy? I understand that there is less money for infrastructure but, at the same time, there will be a competitiveness pot. It seems a bit contradictory that, at the time that Scotland needs to become more competitive and build more infrastructure, we are no longer being allowed to do that. However, let us put that aside.

The scale of the competitiveness pot is not yet decided, as negotiations between the Executive and the UK Government about its final size are still continuing. I do not want to get into an argument about growth in Scotland compared to that in the rest of the UK; let us just accept that growth here is not quite as fast as it is in some other parts of the UK. In those circumstances, I would have thought that, using your knowledge and understanding of what is happening in Europe and Scotland, you could help the Scottish Executive in its arguments with the UK Government about how best to get the biggest share of that pot. Have you been asked to help? If you were asked, what would you say?

Donald MacInnes: We are in dialogue with the Scottish Executive all the time. With the Scottish Enterprise network being such a big user of the fund, it is inevitable that that is the case. I would say to the Executive what I have said to you: we need to keep investing in innovation, skills and priority industries and to maximise what we can from the European funds in those areas. With a decreasing fund, we need to create as much opportunity as possible for people and businesses in Scotland, and that is the best way to do it.

Bruce Crawford: I was thinking more about help for the Executive when it goes into negotiation with the UK Government. What information can you give the Executive that would help it to lever a bit more out of the negotiations about what will go into the pot? That will be one of the crucial issues. Obviously it will be less, but I would rather have more less than less less, if you understand what I mean.

Donald MacInnes: There are two things. One is that the current funds are being exceptionally well used. We are confident that the Scottish Enterprise network has applied for all the funds for which it can apply and that it is making good use of them. The second point is that we believe that, in "A Smart, Successful Scotland", we have the right strategy for delivering better programmes for accelerating the rate of growth. That is the message that we give all the time and it is well received in Brussels, where Scottish Enterprise is highly regarded as an economic development agency.

Alan Wilson: The question came up at the previous meeting of the Scottish European structural funds forum, of which I am a member. I think that it was at that meeting, which was about six months ago, that we saw a draft of the Executive's submission to the NSRF. Apart from that, the SCDI has not commented and has not been asked to put any more tuppenceworths in.

Bruce Crawford: Thank you. You have given me a question for the minister.

The Convener: Dennis Canavan has had to leave the meeting, but I suspect that he was going to ask you about the potential of co-funding between European countries, apropos of the study that he is carrying out on the committee's behalf.

Donald MacInnes: I can talk in Gaelic on that, I suspect.

The Convener: No, please do not. If you wish to, we will have to suspend for a while until we get someone who can translate for us.

Donald MacInnes: One of my colleagues, Marta Smart, has been along to a couple of the meetings on co-operation with Northern Ireland and the Republic of Ireland and we hope that a good project will come out of that. We are keen to encourage our members generally, not only Scottish Enterprise, to use the territorial co-operation fund. There is a big opportunity for Scotland to do that and we will encourage our members to get on with it and think outwith their local boundaries.

The Convener: "Get on with it"—I rather like that concept.

Alan Wilson: We gave evidence to Dennis Canavan last March and we were pleased that he

came along to one of our committees and led a discussion on the matter.

I often feel that there is no better start for an exporter or someone who wants to trade than to trade with Ireland. The Irish speak roughly the same language and Ireland is accessible, but trading with them takes us into transportation, the euro and a growing economy. We have been awfully keen to encourage links with Ireland. Last year, we had a programme to whip up some interest in that among our members. We currently have a proposal with one of our enterprise organisations for a modest programme of trade missions to Dublin, which is going through that organisation's consideration system right now.

The final point in the paper that we put to Mr Canavan was that, regardless of whether we could win EU co-operation funding, we in the SCDI, together with the Scottish Parliament, the Scottish Executive and Scottish Development International, should be doing everything we can to improve the links. The funding is a little bit of sugar, but we should be doing it anyway.

15:30

The Convener: That is a positive note to end on. Thank you so much for your time.

We now welcome the final witness in our inquiry, Allan Wilson MSP, Deputy Minister for Enterprise and Lifelong Learning. He is joined by Phillip Raines, team leader of cohesion, co-ordination, monitoring and evaluation policy in the European structural funds division, and by Graeme Dickson, head of the enterprise and industrial affairs group in the Scottish Executive. As usual, I invite the minister to make introductory remarks before committee members ask questions.

The Deputy Minister for Enterprise and Lifelong Learning (Allan Wilson): I will move quickly on to the meat of the business, as I know that you have already had some deliberations in advance of our arrival and no doubt there will be a number of questions that you want to ask. I thank you for the opportunity to contribute to the inquiry on future structural funds programming here in Scotland. It is an inquiry that comes at an important and, dare I say, opportune time for the development of Scottish programmes. We welcome the committee's input to the on-going consultation process, including the stakeholder events, which I seem to recall, convener, you attended towards the end of last year.

The national strategic reference framework consultation—to which the committee has also responded—closed recently, so we are now in a position to move forward. In that context, the committee's input will be welcome because I appreciate the work that colleagues are doing on

what is historically and prospectively a complex series of interrelated negotiations.

As members of the committee will recall from the evidence that I gave back in December, new programmes are being developed against a backdrop of sharply reduced funding. From watching some of the committee's evidence taking, I know that most witnesses have been at pains to point out the context. It is clear that that is an overriding consideration as we develop programmes. In addition, we must take account of the reduced scope of the draft structural funds regulations, particularly the requirement for a majority of funding—60 per cent in the Highlands and Islands and 75 per cent in lowland and upland Scotland—to be targeted at activities that contribute directly to the Lisbon strategy on jobs and growth.

Furthermore, we believe that there is a need to develop a more strategic approach in the present round. The situation can change. I remember being on the other side of the table when I was a member of the European Committee in 1999 and 2000, when the previous round was discussed. To an extent, we are dealing with a moveable feast. Seven years into devolution, the time has come to adopt a more strategic approach and to align structural funds with the priorities that the Parliament and the Executive have set for Scotland. The delivery of structural funds must complement the strategic direction that we want to take across the range of domestic programmes. None of us can look too far into the future, but it is fairly safe to say that if there is another structural funds programme in seven years' time, a smaller sum of money will be available to be distributed. With less funding available, it is crucial that we ensure that structural funds are effective in delivering on our objectives in the next seven-year programme. We want to ensure that the reduced amount of structural funds will add maximum value to our domestic policies.

Those are the principal reasons for the extent of the change that we are proposing to how structural funds are delivered. The committee is well aware of our proposals, which I dealt with in some depth in December. I will not repeat what I said then, other than to emphasise that no final decisions have been taken on the way forward. We are investigating a number of options, which include more direct use of the enterprise networks for the delivery of Lisbon-type economic development objectives, the use of community planning partnerships to deliver community regeneration and social inclusion priorities, and continued use of the challenge fund system for the rest of the programmes while we pilot the prospective co-financing arrangements.

We have always said that a hybrid system is a strong possibility and nothing has happened to

change that view. Whatever system we develop, we will ensure that it provides an important role for partnership working and offers good local responsiveness. As well as the stakeholder consultations and the forum that we have established whereby all the various parties come round the table to discuss the issues, we have held a series of bilaterals with COSLA and the voluntary sector to consider how the prospective changes might impact on their particular responsibilities.

The committee will probably agree that change is unavoidable. There is nothing new in that—it was the case with previous rounds of structural funds. Change is inevitable this time because of the decline in the amount of funds that will be available for the coming round. Although we face significantly greater change, it gives us an opportunity to ensure that structural funds match our domestic priorities. Given that the Parliament is now well established and its commitments, priorities and objectives are clear, we must ensure that the structural funds that we managed to secure comparatively recently at the financial summit add value to our domestic policies and that we develop structural fund systems and delivery mechanisms that contribute to our objectives.

In the months to come, we will need to move ahead with detailed planning to ensure that the transition to the new programming period is as smooth as possible. We know from experience that the process will not be easy, and we look forward to hearing the committee's views on the matter. I have read the evidence and I think that we are largely singing from the same hymn sheet. I am happy to answer members' questions and to go into the matter in more detail. If I am unable to respond, my officials Graeme Dickson and Phil Raines will try their best to do so. Again, I say that if we cannot answer any of your questions verbally, we will be very happy to write to you with that detail.

The Convener: Thank you very much, minister. I open the discussion up to members' questions.

Irene Oldfather: Minister, I am encouraged by your comment that no final decisions have been made and by the strong possibility of a hybrid system with a role for community planning partnerships. I am very interested in that aspect; however, evidence that we have received suggests that the proposal is not universally popular and that, at the moment, there is not enough consistency in Scotland to adopt such a community planning partnership model. What are your views on that?

I agree that this change is inevitable. You will be aware that the European Commission has, in the past, held the Scottish model in high regard and felt that it delivered transparency, accountability

and a bottom-up approach—matters that have been raised in evidence. Are you confident that a new model will be able to deliver that?

Allan Wilson: The proposed move to co-financing will improve the delivery mechanism because it will result in a closer fit with our national strategic priorities. However, as I said in my opening remarks, any such proposal, no matter whether it involves community planning partnerships or other prospective co-financiers, will be introduced on a pilot basis.

In response to your question, we think that, by 2009, much of the funding will be distributed through the PME mechanisms that we are currently consulting on. We will also pilot co-financing schemes over the same period. Whether or not they work will influence any future developments.

Co-financing gives us many opportunities to streamline the efficiency and effectiveness of programmes and ensure that more of the money that is currently spent on programme management—in other words, the bureaucracy that surrounds such matters—will be spent on project delivery. Of course, that does not necessarily mean that co-financing partners will get proportionately more of the shrinking cake; however, our objective is for programmes to be delivered more effectively than they have been in the past.

15:45

Irene Oldfather: On your point about the programme management executives, I note that you state in your submission:

“For the first time, these new bodies would be selected through a competitive tendering process.”

Has a requirement to do that been placed upon you, or did the Executive decide to take that approach?

Allan Wilson: We are required to do that.

Phillip Raines (Scottish Executive Enterprise, Transport and Lifelong Learning Department): That comes from a number of different directions. The key one is that, over the years, European Union auditors have come to look at our systems and said, “Why haven’t you tendered for these?” From the general perspective of value for money, it makes sense to go out to tender for future programmes, but we are also required by EU auditors to do that.

Allan Wilson: It also flows inevitably from the proposition that, from the point of view of effectiveness and efficiency, we should reduce the number of programme management executives to one in each programme and each region. That is a logical sequitur.

The Convener: I have some concerns about the hybrid system. The committee agreed and stated in its report that it was worth considering, but we know that funding will be much reduced and I worry that opting for a hybrid system is a cop-out, because the hard decisions have not been taken on whether there should be co-financing or whether it should all be challenge funding. I would like to know that the Executive has firm proposals on the criteria for each funding stream.

I am also concerned to hear you say that there will be a pilot that will be assessed in a couple of years’ time. We are talking about a comparatively short period for the structural funding round. Projects have long lead-in times and long completion times. What will happen if the pilots do not work? Where will we be at that time, two or three years down the line?

Allan Wilson: I will turn that argument on its head. You would not expect us to commit to a seven-year programme of project delivery based on a model that was not successful. I think that either you or Irene Oldfather said that community planning partnerships are, if not in their infancy, at least in the early stages of development. There will undoubtedly be distinctions between the relative effectiveness of the partnerships, as there are between different local enterprise companies in the context of Scottish Enterprise, or more generally.

We have clear ideas—which are set out in the relevant priorities on which we are consulting—about who might be best placed to deliver effectively on the objectives. For example, the enterprise networks receive about £26 million-worth of European structural funds to invest through co-investment or proof-of-concept funding. They are the obvious vehicles to drive forward the R and D and wider business development agenda. Community planning partnerships are clearly the favoured vehicle, along with urban regeneration companies, to drive forward community regeneration.

Beyond that, obviously, there is an important involvement with the voluntary sector. About 38 per cent of the funding goes in that direction, so it is important that there is also a bottom-up approach. Communities are able to influence the programme via the PME system and in their direct relationships with partners such as local authorities, local enterprise companies and others.

As you know, we commissioned research into the delivery mechanisms as part of the consultation process. That research showed—not surprisingly, in my view—that the hybrid model was the favoured model. I do not think that it is beyond our ken or competence to take that forward effectively and efficiently and match the reduced funds with those strategic objectives, as

well as, importantly, ensuring that local partners and communities are involved and that the moneys go to the places that need them most, in accordance with those priorities.

Mr Wallace: You have spoken about the hybrid model. Do you envisage that being used both in the Highlands and Islands, where you might argue that the change will not be as great, and in the lowlands and uplands?

Allan Wilson: Yes. As you know, given your previous involvement in the process, retaining flexibility within those areas is important. One of the arguments against expanding further on the proposed single PME is that we would lose a degree of flexibility in matching need with the available finance. Certain parts of the country could find themselves disadvantaged if we were to go in that direction.

I seem to recall, from a previous occasion when we were discussing the securing of transitional funding for the Highlands and Islands, that there was some concern that it would all be swallowed up by Inverness and would not find its way to other parts of the area. Those issues were successfully addressed in the Highlands and Islands, and we have to do the same in the lowlands and uplands but—I am increasingly convinced—within the context of a single partnership area.

Mr Wallace: You indicated that community planning partnerships could potentially be co-funding organisations. One of the reasons for going for one PME for the Highlands and Islands and one for the uplands and lowlands is to avoid a proliferation of organisations—for good administrative reasons. It strikes me that in the Highlands and Islands, but particularly in the uplands and lowlands, the number of community planning partnerships must be substantial. How do you intend to avoid a proliferation of co-financing organisations, which might give rise to the same administrative problems that you have identified in relation to having too many PMEs?

Allan Wilson: We will avoid that by selective use of the CPPs, so that their involvement matches our strategic objectives, in particular where we have set out community regeneration as a priority. That way, the focus is on those areas that need regeneration most, where that equates with the wider Lisbon agenda. As you will know, there can be disparity in how R and D funding comes through the bottom-up approach. The big danger with having two or three programme management areas for lowland and upland Scotland lies in having unmet need in some areas and difficulty in meeting the N+2 targets in others. We want to avoid that and to retain flexibility. If we proceeded otherwise, we might lose control over how funds are allocated in lowland and upland Scotland if it goes below a certain level of

programme management. Those are all compelling arguments for retaining flexibility within a single programme management area for the lowlands and uplands.

Phillip Raines: There are about 32 CPPs, and there is no way that we can fund them all. The current proposal is to fund a handful of CPPs for certain priorities. How many will be involved is yet to be decided, but that is the principle. There would have to be a minimum level of funding to make it worth the CPP's while. You would have to choose those CPPs that have both the capacity and, more important, the demonstrable need. All those issues would need to be addressed at some point. The idea is not to let the number of co-financing organisations proliferate.

Mr Wallace: Might you think of bringing CPPs together? Would that be feasible?

Phillip Raines: That is certainly feasible. That may be a question for the next stage of discussion.

Allan Wilson: The arguments that Communities Scotland makes and Scottish Enterprise's city region strategy, under which city regions drive growth, suggest that CPPs will have to come together across historic boundaries to work on planning and economic development.

Mr Wallace: I appreciate that you cannot be prescriptive, but when you talk about the competitive tendering process for PMEs or for the one programme in each area, what do you have in mind for the various consortia that might tender, to try to ensure that, as you say, they

"demonstrate how the diverse needs of different localities ... would be balanced"?

By going down the proposed path—I hear you say that you have no choice—would you have a difficulty if one bidding consortium involved local authorities from the east of Scotland and another involved local authorities from the west of Scotland?

Allan Wilson: There is existing PME involvement in the process.

Phillip Raines: We should not say too much about the tendering exercise—

Mr Wallace: I appreciate that.

Phillip Raines: Our view is that we will set out the specifications and that we should give the work to anyone who can come along and do it for good value. That is one reason why I imagine that at least some of the existing PMEs would be interested in taking up the option. Other organisations in the public sector may be thinking about bidding, too. The private sector is another factor.

The key issue from our shared perspective is the criteria that we use for selection. To some extent, where an organisation is based does not matter. For example, the objective 3 PME, which covers the whole lowland and upland Scotland area, is based in Glasgow, yet it serves well areas that are far from Glasgow. The winning organisation that will take on the responsibilities will have to demonstrate an ability to deal with the diversity of local issues and to represent and service properly everywhere from the north-eastern tip of Aberdeenshire to south-west Dumfries and Galloway.

The Convener: Minister, when you appeared before the committee back in December, you mentioned that administering the five PMEs costs £15 million. Is the technical assistance that the European Commission gives part of, or additional to, that £15 million? How do you envisage that costs will reduce under your new plans to have only two programmes for Scotland—one for lowland and upland Scotland and another for the Highlands and Islands?

Allan Wilson: We have given the committee a private note on that, which I hope members have had an opportunity to read. Commercial confidentiality applies to that.

I said that the figure was about £15 million—in fact, it is £16.2 million. That excludes the estimated technical assistance of £14.5 million. The estimated total cost is £30.89 million. It is safe to put those figures into the public domain. The objective of what we propose is to reduce estimated partner contributions. We are talking about one strand—that is not the full picture by any manner of means. The Scottish Executive, local authorities, Scottish Enterprise and others will make partner contributions.

Given that rules have been changed about how and where money can be sought and applied, the objective, which I am sure the committee shares, is to ensure that whatever contribution is given, we put as much as we can into project delivery and reduce as much as we can the cost of project administration.

The Convener: Graeme Dickson can address my next question, which is about something to which I could find no reference, although I am sure that the answer was staring me in the face. Will technical assistance from the Commission still apply in the new round?

16:00

Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department): In the table that we have given the committee, you will see that technical assistance continues to apply in future. In the same audit that

Phillip Raines talked about, in which we were told we would have to tender for the PMEs, the Commission's auditor said that it would be illegal—I think that that was the word that was used—to make partner contributions in future.

The Commission has agreed that, provided we make it clear to partners that our contributions are being made voluntarily, we can continue with the PMEs for the current round—that is, up until the end of this year—but we cannot use them for the next round. Any replacement would mean bringing in funding from the Scottish budget.

Allan Wilson: Or voluntary contributions from other partner organisations. Of course, the problem with that is that although principal beneficiaries such as Scottish Enterprise might be able to administer and manage that process, it would be much more difficult for smaller partner organisations to do so.

Graeme Dickson: And it would mean that, as there would be no structure for asking for contributions, they would have to be made on a genuinely voluntary basis.

Allan Wilson: That would still pose the problem of bringing everybody together to agree a programme of management whereby the costs could be shared, approved and agreed by everybody. I am sure that the committee can see the problems that are associated with that approach.

Phillip Raines: Picking up on the latter part of the question, the way to think of it is that the cost to the Scottish public purse of five PMEs is about £4.5 million a year. We envisage that the cost to the public purse of two PMEs in future will be between £750,000 and £1.5 million. Technical assistance would then go on top, as it does at the moment.

The Convener: Thank you for that clarification.

Bruce Crawford: Thank you for your evidence today, minister. The area is highly complex; a lot of difficult decisions need to be made. However, it would be wrong of the committee not to reflect on some of the evidence that we received today from the SCDI, the voluntary sector and COSLA, and from the PMEs a couple of weeks ago. We heard that the consultation on the way in which the Executive is developing its thinking on the subject was not as robust as it could have been.

It is clear that the universal feeling out there is that there needs to be more discussion about where all of this will end up. A number of organisations also think that they could help the Executive to get there. I heard what you said about bilateral discussions and the exercise that is going on with consultants. Would you like to reflect on the evidence, if you have seen it? What more

could be done to involve people in this journey? How can you ensure that, if people can genuinely help, they are given the opportunity to do so, in order to get the best fit at the end of the process? I have tried to frame the questions as positively as I can.

Allan Wilson: I appreciate that. I watched some of the evidence, although I cannot claim to have watched all of it—other things were going on at the time. Given the efforts that we made collectively to ensure that people, including committee members, were brought on board and were involved in this developing process, I was a bit surprised by some of the comments and the direction from which they came.

Given the recent hiatus in the European Union budget, we have not always been the masters of our destiny. Obviously, as with any consultation process, one is hampered if one does not have the facts to put before the partners. As the committee knows, we learned only comparatively recently that we would have structural funds to disburse in the next programme period. We still do not know how much will be made available. Of course, the NSRF consultation, which has only just closed, will enable us to engage more proactively with partners over the summer period to address at least some of their concerns.

We have been proactive, not least with the stakeholder events. From the evidence that the committee has received, you might not have noticed how proactive we have been. I met COSLA in bilateral discussions at least twice over the period. I have been proactive in ensuring that our local authority partners feel involved. We have explained that community planning partnerships are an opportunity for local authorities to develop their involvement, and we have explained that the move towards co-financing is in no way intended to be exclusive, but is designed to ensure a better fit with our existing strategic objectives.

I recently met representatives of the voluntary sector who have real concerns. I think that it was Irene Oldfather who mentioned those concerns. Among other issues, we discussed transitional arrangements. I cannot deny that there are real challenges: we are now unable to operate the systems that we previously operated. We therefore have to consider closely with colleagues how to make transitional arrangements, because 38 per cent of funds go to Scottish voluntary organisations. That sector has a vital role in employability delivery mechanisms, workforce development and skills training. It provides employability services that no one else is currently developing. It is difficult for other public agencies to do that kind of work. It is important to keep the voluntary sector on board and involved.

Bruce Crawford: That is useful to hear. There is obviously a gap between different people's

opinions of what has happened, but you are saying that you will do what you can to help.

In your submission, you say:

"Regrettably, there will be some projects that may not receive future Structural Funds support."

That is inevitable because of the reducing budget. As I said to an earlier witness, I remember the end of the old urban aid programme.

Allan Wilson: Yes, I heard that.

Bruce Crawford: That caused considerable difficulties, especially when organisations tried to keep valuable projects going by getting them mainstreamed into council activity, enterprise activity or even, on some occasions, tourist board activity.

There will be transitional arrangements between Europe and the Highlands, but what transitional arrangements can we make in Scotland to ensure that valuable projects do not just fall off the end of the table and disappear? I accept that funding is reducing and that priorities will have to be set, but that will be difficult.

Allan Wilson: In our submission, I made passing reference to that issue. We have been considering it internally and externally with partner organisations. Any responsible organisation should consider the issue in anticipation of what will happen at the end of the year.

I will ask Phil Raines to go into more detail in a minute but, as I say, we are hamstrung. We are unable to put in place the arrangements that we put in place in the wake of the previous transitional period—which Bruce and I recall—because of changing rules in Europe. We therefore have to consider a new transition model that will protect valuable programmes, keep the skills and expertise that we know to be present, and ensure that we can develop programmes in future. That will be challenging, and we will have to do it with partners.

Bruce Crawford: Funding will be key. Will you confirm whether my memory is right? If the amount of structural funding coming to Scotland reduces, the net effect on the overall Scottish budget is that it goes up—if I remember correctly from previous discussions. When the then First Minister, Donald Dewar, discussed this issue with us in the old European Committee, which Irene Oldfather will remember—

Irene Oldfather: I am not sure that my interpretation will be quite the same as yours, Bruce.

Bruce Crawford: Well, that is why I am trying to ensure that my understanding is right. As structural funds go up in Scotland, the size of the Scottish block declines, or vice versa, or when the

funds come down the amount in the block stays approximately the same. There is an equalising process. Before I ask a question, I had better ensure that my understanding is correct. Will you confirm that, minister? If I have got it wrong, I have got it wrong.

Allan Wilson: I remember that we had complex discussions when I previously came to the committee to discuss the issue. The committee produced a report that helped to advise the process, because it outlined that added value came in large part—but not exclusively—from the ability of structural funds to galvanise private sector and other investment opportunities rather than from adding significantly to the block. Those are complicated financial matters, for which I am not personally responsible. I would like to reply to the question in writing.

Phil Raines can expand on the transitional arrangements that prompted the question. We have already examined that matter in response to requests from the voluntary sector and others. The loans scheme that we operated, under which all the moneys were not wholly repaid to the Executive, could not be replicated in this case. We would need to look at grant schemes, which would significantly increase the draw down on the block.

Phillip Raines: Your understanding of how the budget works is probably broadly correct in historical terms, but the way in which structural funds are now accounted for and the way in which they affect the block has been changed by the Treasury. That relates to something called the negative departmental expenditure limit. Everyone would probably run from the room screaming if I tried to explain what that is, so we can perhaps write to the committee to explain how it affects the budget. The system does not operate in the same way as it used to.

Bruce Crawford: It is helpful to know that.

Phillip Raines: On the transitional scheme, back in 1999-2000 a loan scheme was put in place to support vulnerable projects. We still have to explore in detail the feasibility of such a scheme, but the early indications are that the Commission would probably not support the way in which that scheme operated. That is not to say that we cannot explore similar schemes, but we would probably have to devise a new scheme. The cost of a new scheme would be a major issue because, as the minister said, a grant scheme is a different kettle of fish from a loan scheme.

Bruce Crawford: Paragraph 5 of the Executive's submission, on page 7 of paper EU/S2/06/9/1, refers to the UK competitiveness pot. I asked previous witnesses what intelligence has been brought to bear to help the Scottish Executive negotiate the best deal that we can from

that pot. What stage have the discussions reached? Are we any nearer to knowing how successful we will be? How can we use the intelligence of the Scottish business community to give you negotiating levers in those discussions?

Allan Wilson: The allocations are largely statistically based. As you know, different formulas can apply to the allocation of funding across a member state. We have been engaged in the process at both ministerial and official levels. At ministerial level, we have made representations to our Department of Trade and Industry counterparts to argue the case—as you would imagine—for Scotland maximising its share of the overall allocation. We aim to ensure that moneys that we receive are used to address strategic objectives, which we share with the UK Government.

Phil Raines and Graeme Dickson, as the officials concerned, can perhaps elaborate on their interdepartmental discussions at official level, principally with the DTI, on maximising Scotland's share of the competitiveness allocation.

Phillip Raines: The committee will know that as part of the national strategic reference framework consultation—I wish that they could find easier names for these things—the DTI asked people how it should divide up the pot. Because it asked the question, it cannot prejudge the answer. The DTI, which is responsible for taking the lead on the matter, has been collating the responses. When we see them, we can take the negotiations forward quickly. Everyone recognises that the matter needs to be resolved probably not long into the summer.

16:15

Graeme Dickson: As Phillip Raines said, it is largely statistical measures that are published, and we all agree on them. Our statisticians and economists have been working away trying to crank out formulas that benefit us as much as possible, but other parts of the UK have been doing the same.

Bruce Crawford: That is why we need to help you to get the best deal possible.

Allan Wilson: I think that it is fair to say that they have been relatively successful.

The Convener: I am glad to hear it.

Last time you were here, minister, at the meeting in December, you accused me of being a terrible pessimist, because your glass was always half full and mine was always half empty. My question was about whether the 2007-13 programme would start on time, and you assured us that it would start on 1 January next year. Now, here we are, six months down the line, and

although I know that there is a lot going on in the background, stakeholders and politicians still do not know the basic criteria for much that will happen with the programme. Are you still confident that the new programme will start in January? If not, what interim funding will you put in place to ensure that people are not disadvantaged? For example, will the N+2 funding roll on until the start of the new programme?

Allan Wilson: I am sure that you will be pleased to learn that I remain optimistic. I am not too sure that I accused you of being pessimistic.

The Convener: Oh yes you did.

Allan Wilson: Did I? The *Official Report* will prove or disprove that, but it does not really matter.

I remain optimistic. The big challenge, as I told Bruce Crawford, is the transitional period between one programme and another. However, we remain optimistic that, once the discussions on allocations under the competitiveness strands are concluded and once the consultation finishes in the summer, there will be more information. I argue, of course, that there is already a range of information out there, and we have consulted on programme management and delivery mechanisms for the priorities that we have set, which match up with the aims in "A Smart, Successful Scotland" and the "Framework for Economic Development in Scotland". I think that, generally, people can see which way the wind is blowing, but there is obviously still a lot of work to be done to put meat on the bones of those initiatives. I am mixing my metaphors, but you know what I mean.

The Convener: Do you still reckon that we will start on time?

Allan Wilson: Yes.

Phillip Raines: I should add that things have changed since December.

Mr Wallace: We talked about the tendering process for programme management executives. Do you have a rough timetable?

Phillip Raines: The process has started. What is known as the pre-information notice has gone out.

Allan Wilson: You will understand that we have to set targets and timetables.

Mr Wallace: When do you hope to appoint them?

Phillip Raines: We are looking to appoint sometime in early autumn, perhaps in September.

It is worth pointing out that the timetable is not entirely under our control. The national strategic reference framework consultation is the first step.

You cannot consult on programmes, or even develop programmes properly, until you have consulted on what people think of the overall structure. That timetable had not been set out in December, but our view was that it was going to start a good number of months earlier than it did. It is a matter for the UK Government that it started several months late. We are rolling with the punches as best we can, but there is only so much that we can do.

At the other end, we have to work with the European Commission, which will be dealing with 25 member states, and we can work through the queuing system only as fast as we can. We are doing everything we can to try to negotiate and deal with the EC, but if we have everything ready and it is just sitting in the waiting room, there is only so much that we can do. We have to remain optimistic, but we can remain optimistic only for those things that we can control.

The Convener: I take it that you have a plan B to allow you to make interim funding available.

Phillip Raines: That is what Mr Crawford's questions addressed. We are considering that at the moment.

Allan Wilson: We are examining the important transitional period in some detail.

The Convener: I picked up from what you were discussing with Bruce Crawford that projects are coming to an end and that there will be automatic runover. What about new projects? If people are tendering just now, new projects for funding decisions are likely to be on the table fairly quickly.

Phillip Raines: European regulations are pretty firm on that question: we cannot spend money retrospectively. Until the programmes are agreed, we cannot borrow against future funding, so anything we choose to fund before the programmes are agreed comes out of our coffers. That is a decision that has to be taken, along with all the other spending priorities and the pressures on the budget.

The Convener: N+2 will not apply then.

Phillip Raines: N+2 will apply.

Allan Wilson: It will apply, but the expenditure will need to be granted. We cannot borrow against prospective funding, as we did previously.

The Convener: Thank you. Phil Gallie has been waiting patiently.

Phil Gallie: As always.

I wish to make an observation, minister. You mentioned the European auditors. Considering our tendering systems, it is good to know that the European auditors are active somewhere. What we are doing now is considering the use of funds

for the future, but it is always reasonable to look back at how we have used funds in the past. Ireland has seen massive long-term improvements to its economy through the structural funds; we should have seen similar advances in Scotland through past objective 1 funding. Are you confident that those advances have been made? Would you be able to take the lessons of that into the future in respect of how we use structural funds?

Allan Wilson: We have to learn from the experience of how the funds have been utilised; as somebody said, we must build on success. If we consider the Highlands and Islands as a case in point, it is easy to demonstrate the difference that the funds have made in moving the Highlands and Islands up the prosperity league to such a degree that the argument last time was whether the region still falls within the criteria for structural funds, hence the transitional agreement. The region now qualifies for convergence funding. There is clear evidence of economic progress in strategic use of structural funds to benefit that region.

The same is true throughout west central Scotland. I argue—from personal experience—that the moneys have historically been successfully used: that has been less the case for the infrastructural improvement that we have seen in parts of the Highlands and Islands and more so for promoting social inclusion and providing greater opportunities, employability and skills training. Reference was made to proof-of-concept funding and the co-investment fund. Following the Lisbon agenda, we have been particularly successful, if I may say so, in leveraging private sector finance in to supplement structural funds and other public sector investment moneys in order to boost innovation, to create employment and to grow business—and jobs with it. At the last count, we have the best level of employment anywhere in the EU 25 other than Denmark. That is in no small part down to the progressive and successful policies that have been followed by the Executive over the past seven years, not least in terms of matching structural funds with our domestic competitor on this agenda.

Phil Gallie: It sounds quite reasonable that we should build upon what you claim have been great successes. How does that fit with the objectives that have been set under the Lisbon agenda, in which we are looking at competitiveness and growth in particular?

Allan Wilson: “A Smart, Successful Scotland” and the “Framework for Economic Development in Scotland” already set strategic domestic objectives in both those areas, which are compatible with the Lisbon agenda. Those objectives are: to promote innovation; to grow competitiveness; to invest in research and development; and to grow

employment. There is a close match there, as there is with our suggested priorities for future structural funding.

Clearly, there are still issues between rural and urban Scotland about the most effective means of delivering investment. However, my view remains that a single programme management executive for lowlands and uplands Scotland is probably the most effective way of ensuring that there is sufficient flexibility to meet need in rural and urban areas.

We should remember, of course, that structural funds are a small percentage of total economic development spend. In addition to the moneys that we expend through structural funds in rural Scotland, there is access to other considerable sums of European funding for agri-environment and agribusiness development, fisheries funds and so on, all of which complement structural funds in rural Scotland.

Irene Oldfather: The minister has just raised the point that I was going to ask him about on the national agricultural and fisheries programmes. Obviously, fisheries and agriculture funds exist to aid rural communities to diversify and so on, and we acknowledge that other funds are available for diversification in rural areas, but how can we strike a balance to ensure that the reduced amount of structural funds is targeted at the appropriate areas?

Allan Wilson: That is an important point, to which I just referred. Obviously, we have set priorities in the ERDF that reflect the requirement to address rural sustainability and economic development within the funding strand. That is important, but it is not the only avenue for support; there is a move in common agricultural policy reform away from production subsidy to more rural development and sustainability through investment in agri-environment and agribusiness. Given my previous departmental experience, I know that those are important mechanisms for diversifying and developing the rural economy in Scotland.

Irene Oldfather: Does that mean that there should be more targeting of the limited resources to the city region and urban regeneration areas?

Allan Wilson: We should meet need wherever it presents itself, whether in rural or urban environments. Although we will have reduced money at our disposal, we are keen to ensure that we match that money with need.

Graeme Dickson: I will elaborate on the split. Members will have seen from our submission that we have three priorities for the ERDF programmes: one in innovation and enterprise development; one in community regeneration; and one in rural development. Although we have only one programme, we have the freedom to decide

how much funding goes into each priority. If things change during the life of the programme, we can move funds between priorities, assuming that we agree that with the Commission. Therefore, we can try to target moneys at rural areas. If we move into smaller programmes, as will happen in England, the entire UK-wide formula for distribution would apply.

Irene Oldfather: You want to retain flexibility.

Graeme Dickson: Absolutely. Strangely, there is less scope to move money around Scotland between cities and rural areas if we use smaller programmes than if we use one big programme.

Allan Wilson: The last thing we want to do is lose money to which we are entitled because of inability to deliver according to NUTS II timetables. A single programme, with the flexibility that that entails, will address those issues.

Graeme Dickson: It is N+2 and not NUTS II.

Allan Wilson: Sorry, it is N+2. I am getting my NUTS mixed up with my Ns.

Mr Wallace: What an admission.

The Convener: It's your own fault, minister.

Mr Wallace: The minister mentioned NUTS II. I am sure that he is well aware of the issues in Dumfries and Galloway and the Scottish Borders. If they were NUTS II areas, they would have the same entitlement as the Highlands and Islands. Do you have anything specific in mind with regard to those areas?

16:30

Allan Wilson: We think we answered a parliamentary question that put information on that in the public domain. It is important that we get the right balance, which is one reason why I have referred obliquely to the need for flexibility in the single lowlands and uplands programme. We want to ensure that specific issues that arise—for instance, development of the rural economy in the south of Scotland—can be accommodated. That would be much more difficult to do, if not impossible, at the NUTS II level with a two or three-programme area.

Graeme Dickson: On the specific question, we had better look out our answer to the PQ that the minister mentioned. The Commission has said that Eurostat needs to consider the issue, but that it cannot do so in the present programme period. It will be about 2008 before Eurostat can consider the proposal for a new NUTS II area in the south of Scotland.

Allan Wilson: As you might imagine, the south of Scotland could be disadvantaged at a NUTS II level if we had a multiprogramme area.

Phillip Raines: The simple answer is that our initial proposal is to set aside the ERDF priority 3 money for rural areas. That has two aims. One is to improve the competitiveness of those areas and the other is to address areas of real need. It is not for us to say at this point which areas will be involved and how we will do that, but we acknowledge that a specific issue arises, not only about the south of Scotland, but about rural areas in general. They need to be dealt with in the two ways that I mentioned. We have the flexibility within the programme to shift resources to such activity and to decide what and where the activities should be over the course of the programme.

The Convener: I want to be clear about one issue. I have been mulling over what was said earlier about the programmes that are to start in January. I agree with you completely that we must remain optimistic, but you said that some elements are outwith the Scottish Executive's control. For example, some matters will depend on the DTI and others on the European Commission's queuing system. Is there potential for Scotland to lose some of the programmed money if we cannot start on time?

Phillip Raines: As far as I know, in the history of structural funds in Scotland no programme has ever started on time but, to date, we have not lost any funding.

The Convener: You said that the criteria on what can be done with interim funding have changed.

Phillip Raines: If you are asking whether we could lose some of the money that will be awarded to us from Europe, the answer is that the principle that will be used—the N+2 rule—has not changed. What has changed is our ability to cover the gap before a programme starts. We need to consider how to address that gap, but for the funding that we will get, the N+2 rule has not changed.

The Convener: So—no issue will arise unless the programmes are more than two years late, which I trust they will not be.

Phillip Raines: If we are more than two years late, the whole of Europe will be more than two years late, in which case, the Commission will have a bigger problem than just us to deal with.

Allan Wilson: The period is two years from the start of the programme, rather than two years from 1 January next year.

Phillip Raines: My understanding is that, in effect, we have the first three years of the programme in which to spend the money. The formula is rather complicated, but that is the outcome. Some current programmes did not start on time, but we have still met the N+2 rule every year until now, certainly with the structural funds.

Allan Wilson: In my experience, in the past 18 months, it has become increasingly difficult to meet the N+2 target. One of the reasons for pressing ahead with the new proposal is so that we can make it easier to meet the target and ensure that we do not lose funding.

The Convener: We will end on that positive note. I thank the witnesses.

I suspend the meeting for five minutes.

16:34

Meeting suspended.

16:41

On resuming—

European Commission Work Programme 2006

The Convener: The third item is our regular paper tracking the items in the European Commission's work programme that the committee has identified as being potentially important to Scotland. There is also an update on the European Commission's plan D for democracy, dialogue and debate. Do members have any comments?

Phil Gallie: I would like to link comments on plan D with issues that we will discuss later—the sift paper relates directly to plan D, so perhaps we could discuss that when we discuss the sift paper.

The Convener: Okay. Are there any other comments?

Mr Wallace: On the European Institute of Technology, I notice that what is being considered seems to have changed a bit. Is there anything in that item worth bidding for? The idea was all virtual before, but it seems to be even more so now.

The Convener: Yes—it seems to be even more virtual than it was when it started. We really just have to track the information as it comes through. Having looked at some of the reports that I got back from Alyn Smith MEP, for example, I still do not understand fully what was being talked about. However, we expect to receive a communication on 8 June, so I hope that when we meet on 20 June we will be able to be a bit more firm on what is actually happening.

Mr Wallace: The idea of establishing

“a governing body to oversee a network of ‘knowledge communities’ drawn from business and the tertiary education sector”

could be positive, but equally, it could be a heavy hand that stifles innovation rather than promotes it.

The Convener: Yes. The tracking paper also says that

“Knowledge transfer remains at the heart of the proposal.”

We are all highly relieved to hear that, I think.

We will have more of an idea at the next committee meeting after we have received the communication that we expect.

Pre and Post-council Scrutiny

16:44

The Convener: We move on to our regular scrutiny of the agendas and reports of European Council meetings. Members will note that one paper that we were expecting, on the economic and financial affairs—ECOFIN—council, is not included in the papers because it has not yet been received. I hope that it will be included in the papers for our next meeting. Do members have any comments on the others?

Bruce Crawford: There is obviously some movement on the requirement to tender for rail and road services—under land transport on page 5—which seems to me to be contrary to what is happening with ferries. I find it quite difficult to understand where there is a change of direction in regard to requiring authorities to tender services that require financial support or exclusive rights. If there is no longer a requirement to tender for rail and road services, why is there still a requirement to tender for marine services? It might be useful to find out whether the Commission intends to do any further work on that. Do you see where I am coming from? The paper says:

“The EU Transport Ministers held a first substantive debate at the last TTE Council on 27 March. The proposal would not require authorities to tender services requiring financial support or exclusive rights”

on rail and roads, so why not ferries?

The Convener: We can ask.

Bruce Crawford: I do not know the answer. There might be a perfectly logical reason. There seems to be a lightening of the hand, but why only on two modes of transport?

The Convener: Would you like us to write to the Commission to ask it why?

Bruce Crawford: Yes—just out of sheer curiosity. It would be useful to understand that better.

Phil Gallie: On page 13, there is a comment on fisheries. It states:

“The UK led calls from several Member States that measures should deliver a profitable industry which can pay for its own investments and which was characterised by fleet capacity to match available resources.”

I am delighted that the UK has led the call, but it has already led the way on the issue. I wonder what kind of response it got to the call and whether other nations will now comply with the lines that the UK has taken. That is important from the point of view of having a level playing field for our fishing industry.

The Convener: We could ask for more information about what the responses were to the UK-led call.

Phil Gallie: That will do me.

Irene Oldfather: I note that the pre-council agenda of the agriculture and fisheries council of 19 June includes a policy debate on a proposal for a council directive on protection of chickens. That has been outstanding for some time—in fact, I recently lodged a question on it—and is all the more important given concerns about the possibility of avian flu. I know that pre-council agendas are subject to change, but it will be worth our while to note from the post-council agenda whether any discussion takes place on the issue. I would certainly be interested to see the results of any such discussion—the matter is important for Scotland.

European Union Legislation (Transposition and Implementation)

16:48

The Convener: I hate to take members back the way, but I missed out an agenda item.

Irene Oldfather: We did not even notice.

The Convener: Phil Gallie noticed.

Irene Oldfather: Did he? He would.

The Convener: My head is full of structural funds. I am sorry to confuse everyone as much as I am confused myself, but we must go back to agenda item 4, which is an update on the transposition and implementation of EU legislation in Scotland. I am sure that everyone has read the paper closely and is ready to give lots of comments.

Bruce Crawford: I certainly have one comment. I do not underestimate the difficulties that are involved in directive 2002/96/EC on waste electrical and electronic equipment—the WEEE directive—and I do not underestimate how complex it is or how difficult it will be to ensure that UK and Scottish law are able to move forward at the same time, but I am concerned that the matter has been on-going for some time. Everyone will be aware of the impending explosion in waste electronic equipment, from old computers in particular, due to the advance of technology and the impact on third world countries as they deal with the outfall from western economies—stuff gets dumped in China on poorer people. There is also the possibility of infraction proceedings flowing from our not implementing the directive.

Could the committee get more information on that? Once we see the information, we could ask the Environment and Rural Development Committee to hold an inquiry into the subject. I realise that our work programme makes it difficult for us to do that. Another committee may be examining the subject and issues may have arisen before I rejoined the committee, about which I am unaware. The issue is important; we need to start to deal with it in a significant way.

Irene Oldfather: If I remember correctly, although we have exchanged a considerable amount of correspondence with the Executive on the subject, it has been a few months since we last received an update. Obviously, the subject is complicated. The UK is not the only member state to find difficulty with the issue; that, in a sense, gives us more leeway. Given the situation in other member states, I would be surprised if infraction proceedings were to be commenced. I agree with

Bruce Crawford that we should write to the Executive to find out what the current position is.

The Convener: Perhaps the clerks could investigate whether another committee is examining the matter. We could drop a letter of concern to the Environment and Rural Development Committee and ask it whether it has considered the issue.

Bruce Crawford: We should first see the Executive's response. I accept what Irene Oldfather says; all member states are having difficulty. It is an equally difficult issue for the third-world countries that are having to deal with some of the stuff that they have had dumped on them. There is an imperative on us to get this right.

The Convener: A moral imperative.

Okay. Members have no other issues to raise under this item, so I suggest that we write to the Executive to ask why the things that are late are late and whether there are any financial implications for Scotland. Are we agreed?

Members indicated agreement.

Sift

16:52

The Convener: We now jump to item 6, which is our regular sift of EC/EU documents and draft legislation. As usual, I turn to documents of special importance, the first document of which might be referred to all the Parliament's subject committees. It relates to the establishment of a citizen's agenda, which is an attempt by the European Commission to take an institutional step forward following the votes on the constitution and the subsequent period of reflection.

The second document might be referred to our colleagues on the Education Committee and the Enterprise and Culture Committee. It relates to the modernisation agenda for universities, education, research and innovation. It is based on dialogue that the Commission initiated between member states and the academic and scientific communities. The document also acknowledges the central role that that plays in the Lisbon strategy.

The third document is relevant to this committee. It is a green paper on the European transparency initiative. Members who have been on the committee for a long time may recall that we examined the issue when we considered good governance in the EU agenda. On this occasion, we do not need formally to respond to all the areas that are covered in the green paper.

In the past, we have noted that consultation deadlines on some documents seem to be very tight. It would therefore be worth our while to write to the Commission to say that, although we are not responding to the green paper, the deadlines on some EU consultation papers are unreasonable and often prevent responses. The Commission may detect the irony of the statement, given the new dialogue that we are supposed to be having. Do members agree?

Members indicated agreement.

The Convener: The fourth and final document of special importance can be referred to the Justice 1 and Justice 2 Committees. It is a green paper on the presumption of innocence. Again, I note that the deadline for responses is 9 June. The point is relevant to the action that we have agreed on the previous document.

Do members agree to refer the first, second and fourth documents of special importance to the committees that are suggested?

Members indicated agreement.

The Convener: Are there any other comments?

Phil Gallie: We recently had in Parliament to

defend decisions on sex offenders and the retention of data. That cuts across the subject of the last paper. I simply make that observation; I leave it to Parliament's justice committees to sort out the matter.

The Convener: We can direct them to your comments.

Phil Gallie: My other comment relates to paper EU 9390/06. Once again, we have a declaration, but I would like to know what it is all about. All committee members should be furnished with a copy of the explanatory memorandum. I note that it is available on request from the clerks. The sift document states that the communication

"seeks to build on the steps taken in the period of reflection".

Elsewhere in the papers, we read about the response to plan D for democracy, dialogue and debate, but we find that, in fact, there is nothing to build on. There has been no period of reflection with anything worthwhile in it. Once again, we have a bit of European gobbledegook. We should have a look at the explanatory memorandum and see what that has to say.

Irene Oldfather: Mr Gallie is tempting me to speak, convener.

The Convener: I was trying to jump in before you, Irene, but I did not quite make it.

Irene Oldfather: Given the late hour, and in deference to my colleagues who want to get on to the substance of the reports that we have to discuss today, I will resist the temptation on this occasion.

Phil Gallie: That is a pity.

The Convener: Would you like a copy of the memorandum, Phil?

Phil Gallie: Yes. I would have thought that other members would want to read it, too.

The Convener: Okay.

Convener's Report

16:56

The Convener: The next item is my regular report to the committee. The first item in my report is correspondence from the Scottish Executive on the items that Phil Gallie raised under pre and post-EU Council scrutiny in relation to the single free trade area in south-east Europe. Do you wish to comment further on that, Phil?

Phil Gallie: The Executive's response is interesting and I can understand what those who are involved are trying to do. My point was that Romania is going to come into the European Community and that there could be a repeat of what has happened with previous new entrants to the EC.

The Convener: Do any other members have comments on that?

Members indicated disagreement.

The Convener: The second item in my report is further correspondence from the Scottish Executive on the House of Lords European Union Select Committee's inquiry into further enlargement of the EU. We wrote to the Executive to ask whether it will respond to the inquiry; it has confirmed that it will not.

Do members have any comments?

Phil Gallie: I am surprised that the Executive will not respond to the inquiry. In effect, Westminster is our voice on European issues and the inquiry is an important investigation. Irene Oldfather acknowledged that the House of Lords produces many interesting reports. It is a shame that there will be no response to the inquiry from the Executive. Perhaps the committee would like to make a response.

The Convener: I am with you on that, Mr Gallie. I was surprised by the answer because I thought that the Executive would respond to the inquiry on behalf of us all.

Irene Oldfather: I guess that the rationale is that there are members of Parliament on the appropriate House of Commons committee—which, I presume, will respond—and that because the matter is reserved that would be the appropriate channel. I think that that is noted in the Executive's response.

I remain of the view that the House of Lords is undertaking useful work that I will certainly watch with considerable interest. I cannot remember the detail of the questions, but it may be that some are not appropriate to the Scottish Executive. There were a number of questions about citizens from new member states and so on. It might be that the

Executive does not keep that information and that the matter would be best dealt with by the UK Government. We can only guess.

The committee should certainly keep a watching brief on the inquiry because it will produce a lot of useful information.

Bruce Crawford: I did not plan to comment on the matter, but Phil Gallie is right to raise it. Two of the states in any potential enlargement are Romania and Bulgaria. One of the major concerns about those countries is their level of organised crime. Given that we in Scotland have fully devolved responsibility for crime, we can legitimately say that Scotland has an interest in that area and that there might be a particular Scottish aspect that could be fed into the House of Lords inquiry. Whether that is done directly by the Scottish Executive or through the UK Government, I would have thought that at least some views would have flown from Edinburgh to the inquiry.

If the Executive told us that it was involved and that its voice was being heard through the UK Government, I would understand that. That is the settlement that we have—I might not like it, but it is the reality. I would prefer that involvement to be much more visible and to include a direct approach to the House of Lords inquiry, but I accept the constitutional framework in which we live. However, I thought that at least some response would be forthcoming.

17:00

Dennis Canavan: It may seem strange, but I support the Executive. A democratically elected body such as the Scottish Executive should not give credibility to a non-elected body such as the House of Lords and should not give it status that it does not deserve.

The Convener: Have we reached an impasse?

Irene Oldfather: We are divided.

Phil Gallie: Not really.

The Convener: We are not really divided. Views have been expressed, but Irene Oldfather is the only member who has suggested that we do anything, which is to keep a watching brief. Do members agree?

Phil Gallie: I will add to what Bruce Crawford said. Another important element is the Scottish Executive's fresh talent initiative. Without a doubt, resources are liable to come from places such as Romania and Bulgaria. There are many clever people there who have a lot of knowledge and technical ability. That affects us from a fresh talent viewpoint. However, I go along with Irene Oldfather's suggestion.

The Convener: I sympathise with that. Lately, I have felt that although the committee tends to do excellent reports—the fresh talent report was excellent—we do not have a mechanism for following them up, for adding to them or for keeping on top of them. Perhaps we should discuss that in the future.

Irene Oldfather: In the past, we have been quite proactive, particularly with reports that we have sent to the European Commission, and we have often been commended for the work that we have done. I am not sure, but the more Phil Gallie talked, the more I thought that if the timescale were not so tight, it would have been good for us to become involved.

The Convener: The timescale is too tight.

Irene Oldfather: Given that the recess is coming up, the timescale is too tight. The best that we can do is perhaps evaluate the results.

The Convener: The fourth item is to ask committee members whether they would like to bid for chamber time—*[Interruption.]* Oh no—I have missed another item. My head is either all mince or all structural funds—I am not sure which. What would I do without Nick Hawthorne?

Members will remember that John Home Robertson asked us to write to the European Commission about public sector pensions and the rule of 85. The third item is just to note that we have not yet had a response.

The fourth item—am I right, Nick?

Nick Hawthorne (Clerk): You are.

The Convener: The fourth item is to ask committee members whether they would like to bid for chamber time in September or October. We hope to publish two reports before the summer recess—the first will be on structural funds and the second will be on co-operation with Ireland. I suggest that we bid for a slot to discuss the structural funds report—we could pull in the Ireland study in discussing that—because we will have the Executive's response to the structural funds report by September or October. I would like us to bid for two slots, so that we could separate the reports, if possible.

Dennis Canavan: I go along with that. We can bid for two slots. If we do not obtain them, we can combine the two reports in one debate.

The Convener: Is that acceptable?

Mr Wallace: The second report also relates to structural funds.

The Convener: Yes. A debate that focused just on co-operation would be interesting.

The final item is to update members on the latest position on petition PE804, which is that we still have not received a response from Ben Bradshaw. We agreed to await a response from Mr Bradshaw before proceeding to hear from the petitioners—the clerks will continue to press Mr Bradshaw's office for a response.

Mr Wallace: Where are we with the Legislative and Regulatory Reform Bill?

The Convener: That was supposed to come up today. When will it be considered?

Nick Hawthorne: It will be considered at the next meeting, which is on 20 June.

The Convener: That delay was at the Executive's request. I think that the timetable at Westminster has slipped, so the Executive wants to wait until further statements and decisions have been made there. George Lyon will appear on 20 June, when we will have another long meeting.

That brings the public part of the meeting to a close. As we are moving into private session, I ask the public and official report staff to leave.

17:05

Meeting continued in private until 18:04.

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