

# EUROPEAN COMMITTEE

Tuesday 31 August 1999  
(*Afternoon*)

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## EUROPEAN COMMITTEE 3<sup>rd</sup> Meeting

### CONVENER

\*Hugh Henry (Paisley South) (Lab)

### COMMITTEE MEMBERS:

\*Dennis Canavan (Falkirk West)  
Bruce Crawford (Mid Scotland and Fife) (SNP)  
\*Dr Winnie Ewing (Highlands and Islands) (SNP)  
\*Dr Sylvia Jackson (Stirling) (Lab)  
\*Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab)  
\*Ms Margo MacDonald (Lothians) (SNP)  
\*Maureen Macmillan (Highlands and Islands) (Lab)  
\*David Mundell (South of Scotland) (Con)  
\*Ms Irene Oldfather (Cunninghame South) (Lab)  
Tavish Scott (Shetland) (LD)  
\*Ben Wallace (North-East Scotland) (Con)  
\*Allan Wilson (Cunninghame North) (Lab)

\*attended

### THE FOLLOWING MEMBERS ALSO ATTENDED:

Rhoda Grant (Highlands and Islands) (Lab)  
George Lyon (Argyll and Bute) (LD)  
Lewis Macdonald (Aberdeen Central) (Lab)

### COMMITTEE CLERK:

Stephen Imrie

### SENIOR ASSISTANT CLERK:

Eugene Windsor

### ASSISTANT CLERK:

David Simpson



## Scottish Parliament

### European Committee

*Tuesday 31 August 1999*

*(Afternoon)*

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

**The Convener (Hugh Henry):** Welcome. I have had a number of requests from members of other committees to attend this meeting for the discussion on the special programme for the Highlands and Islands. Those members are Lewis Macdonald, Rhoda Grant, George Lyon and Fergus Ewing. I am agreeable to their participation in the meeting and in any discussion; they will not have a vote, should a vote be required.

### Structural Funds (Highlands and Islands)

**The Convener:** The first document before us is the special programme for the Highlands and Islands for 2000 to 2006. As you see, it is a consultative draft plan; the Rural Affairs Committee will also consider it and there will be a separate document on some of the issues in its remit. I know that there is interest from members of that committee and I welcome them here today. Stephen, are there any introductory remarks that you wish to make?

**Stephen Imrie (Committee Clerk):** I have been advised by the Scottish Executive that, as the paper is a draft plan, a more formal and complete consultation document will be coming to the committee at a later date. This document has been sent to us for our initial thoughts. The second, more formal document will be not a draft but the actual plan. I have been advised also by officials from the rural affairs department that the agriculture and fisheries components that should be in this document are, as the convener said, part of a separate consultation exercise. They are writing to you to explain what stage that is at.

**Ms Margo MacDonald (Lothians) (SNP):** As, later in this meeting, we will be discussing the dates on which we need to meet to complete the regional map and so on, it is surely quite important to know when the Executive will have the final plan and not just the draft.

**Stephen Imrie:** It is not for me to comment but, in terms of scheduling business, it would help to know the end date. We are taking consultation on this document now, as we have to reply by 13 September. I am not yet aware of the final date for the more formal consultation, but it would help in

scheduling business if I knew it.

**The Convener:** We should write to the Executive.

I have been asked by Maureen Macmillan if I will take an intervention because she is leaving to go to the Justice and Home Affairs Committee.

**Maureen Macmillan (Highlands and Islands) (Lab):** I begin with some general remarks about the draft plan. I hope that everybody appreciates the size of the Highlands and Islands—it is as big as Belgium, something that is often said but really must be appreciated. It is not a homogeneous region—we need only think of the tremendous contrast between the Inverness and inner Moray firth area and the north and west of the region. The economic base is narrow and even in Easter Ross and in the Inverness area there are long-term unemployment and social problems more often associated with urban deprivation. The other areas, in the north and west, suffer from underemployment and depopulation caused by their remoteness; their economies are usually based on primary products with little value added and on unpredictable and cyclical industries such as oil rig fabrication and tourism.

The Highlands and Islands have tremendous potential, however—perhaps more so than any other area in Europe. We have a storehouse of raw materials to which we need to add value; we have excellent engineering skills, particularly in Caithness; we have enormous tourism potential; and we are in the forefront of communications technology. We must invest in the next technological evolution.

I am disappointed in this document because I do not think that it focuses on the next step. The special funding is much more than we would have had as the usual transitional funding following objective 1 funding, but we must analyse what was achieved in the objective 1 programme and build on it; the document does not do that sufficiently. We must prioritise, think strategically and justify our choices.

As has been said, we must take account of other funds such as those in the rural development programme, which have not yet been announced. We need joined-up thinking. For example, development cannot happen without proper infrastructure. A new pier at Mallaig was built with objective 1 money but we still have a single-track road leading to it. How can we extract the timber crop that is due to come to maturity in the next 20 years if the bridges are on the point of collapse?

We must give priority to infrastructure that will facilitate economic growth, including information and communications technology infrastructure. We must also give priority to the most fragile areas. This is the last chance of large-scale funding that

could make a real and lasting difference. I suggest that it is used to establish a venture capital fund that could then sustain a rolling programme of development.

We must get it right this time. We cannot fritter the money away or spread the jam too thinly; we must make the effects of funding permanent. We must make sure that what we do is properly monitored and I suggest that elected representatives, and not only officials, have an input into that.

**Dr Winnie Ewing (Highlands and Islands) (SNP):** How are we going to approach this matter—bit by bit, subject by subject, or by that kind of general statement?

**The Convener:** I am in the hands of the committee. Shall we go through the document section by section?

**Dr Ewing:** It think that would be useful because there are points in every section as well as general issues. It would be easier to discuss things if we knew where we were.

**Allan Wilson (Cunninghame North) (Lab):** That is an important point but there are clear omissions in the draft plan—most noticeably of a financial table—which mean that our consideration will have to be generally based. If the financial implications are not defined, the specifics are of little value in developing an understanding of the potential impact on the communities that we are talking about.

My view is that we should concentrate on the second part of the strategic aim in the document. Of course our objective is to increase the prosperity of the Highlands and Islands generally through sustainable economic development, but the second part of the strategic aim—the reduction of social and economic disparities within the region, to which Maureen referred—is equally important. At this stage, we need to base our comments more generally.

**The Convener:** This is our first discussion; we will, at a later date, consider some of the detail that, as has been said, has been omitted from this document. As Margo indicated, we need to know our timetable. I propose that we take general points from members at this stage.

**Ms MacDonald:** This is a general point about the management of information. We should determine priorities, because if the committee has a view on the priorities we can indicate to the Executive a spending pattern rather than tell it exactly where to spend the money. I think that that was implicit in what Maureen was saying. If what Allan outlined is the numero uno objective—I am being European—I will go along with it.

**The Convener:** There were at least three

languages in that sentence.

**Ms MacDonald:** Nae problem. That was Glaswegian.

**The Convener:** A number of broad objectives have been articulated. Allan spoke about giving the reduction of social and economic disparity equal importance with increasing the prosperity of the Highlands and Islands. Maureen made some general suggestions and some specific ones, for example monitoring the input from elected representatives and not just from officials. A number of points were made well. I propose to continue the discussion in that vein. If members have points to make on particular sections, they should make it known.

**Dr Sylvia Jackson (Stirling) (Lab):** On a point of information, you said that the fisheries and agriculture issues are being examined elsewhere. We gave the comments from our last meeting to the Rural Affairs Committee. Can the committee clerk go over again how the full proposal will come together?

**Stephen Imrie:** It is my understanding that we will receive a document from the Executive containing the agriculture, fish and financial material that Mr Wilson mentioned. If that document follows the same process as the document that is before us, which I expect it shall, either Mr Henry or I will receive the document to circulate to all committee members and to copy to other subject committees—such as the Rural Affairs Committee or the Enterprise and Lifelong Learning Committee—for their considered opinion.

**Dr Jackson:** The reason I ask the question is that it follows on from Maureen's point about trying to see the whole picture, in terms of those areas that need an on-going appraisal of what has happened and those that need continuing funding to reap benefits. I agree with Margo's point about the need for a realistic time scale to view the whole picture and to examine the issue again.

**The Convener:** I will ensure that the committee clerk and I speak to other conveners to bring some of those points together. We will be able to give you a better idea of how quickly we can do that once we know the answer to Margo's question about timetables. You are correct that we need to know certain information so that we can make progress on the matters before us.

**Ms Irene Oldfather (Cunninghame South) (Lab):** The plan talks throughout about building on the good work of the previous programme. That is important, but we have not examined the previous plan, which may contain some omissions. We must ensure that there is a geographic and equitable distribution of funds with regard to the outlined priorities. That will be difficult to achieve without the financial perspective that we spoke

about, but at some early stage we must gain an idea of the financial allocation to the priority subject areas and to the geographical areas. We must build on the work that has been done but also redress any imbalances in what happened.

**The Convener:** There are a number of ways in which we could do that. The first is to circulate the whole of the previous plan. The second is to produce a synopsis of the key points that have been raised. The third is, in addition to the second point, to invite someone from the Executive to talk to us about the matter. What would be the preference?

**Ms MacDonald:** A synopsis taken in conjunction with some of the first charts in the report—those on population changes, for example—would be sufficient. We would hardly need anything else. If we examine the demographics, we begin to see an indication of where we want to channel funds. I agree with Irene that the new structure arrangement is another country, but we must concentrate on the future. We have it here in front of us.

**The Convener:** I will ask for a synopsis to be circulated to the committee.

14:15

**Dr Ewing:** What will be the time scale for receiving the document on agriculture, fishing, aquaculture and forestry?

**Stephen Imrie:** I am not aware of what the time scale will be.

**Dr Ewing:** Does that mean that we cannot make any comment on agriculture and fishing with regard to the documentation that we have?

**Stephen Imrie:** I understand that separate material will arrive.

**Dr Ewing:** We currently have a crisis in agriculture, a crisis in fishing, a crisis in aquaculture and a crisis in forestry relating to the amount of mature timber. The Highlands also faces a general crisis above all the others in transport and the cost of fuel. If we do not get that right, frankly, these are just nice words under various headings. The problems with transport and fuel affect infrastructure, entrepreneurs and tourism, which is also facing a crisis. Transport problems should be a priority. The Mallaig road has been mentioned; Mallaig is a place of thriving new industry but the road is as bad as ever. It is not the only road of its kind but what is sad is that it serves a lot of growing businesses. Those are the crises that we will have to deal with. These are nice documents with nice graphs but we seem to be no nearer to solving the problems.

At the previous meeting, I asked one of the

officials a question to which I did not receive an answer. I may ask it when Mr McConnell comes, although I may have to go before that. My first question is what sum the Highlands and Islands is getting—it has been described as £210 million and £300 million. Secondly, how much extra money was secured as transitional aid? I would have thought that that was a simple question, but I have never been able to get an answer to it.

**The Convener:** If you wish to pursue that matter you will have to use other avenues. Jack McConnell is coming here today specifically to discuss objective 2.

**Dr Ewing:** He is coming at 3.30 pm?

**The Convener:** Yes, but the discussion will not venture into the allocation of funds for the Highlands and Islands because that is a separate matter. The Rural Affairs Committee is well placed to examine some of your other points about the specific problems facing different sectors of industry. Its role is to take the lead on those matters. We have been asked to make general comments on the consultative draft plan. When we have received more details and the sections that have not been included, we can examine the overall analysis of the plan, but it would not be proper for us to stray into some of the areas that the Rural Affairs Committee will be examining—that would be duplication.

**Rhoda Grant (Highlands and Islands) (Lab):** The plan lacks strategic thinking and, as parts of it are missing, I do not see how we can consider it. Some of the missing parts—for example those dealing with agriculture and fisheries—also have an impact on infrastructure. Until we get the whole plan we cannot examine it as an overall strategy. The plan lacks the joined-up thinking that Maureen spoke about. There is crossover between different sections and we should ask for consideration of that to be given more prominence.

**George Lyon (Argyll and Bute) (LD):** The section of the document dealing with the impact of the previous programme states:

“In order to establish the final impact of the Programme, however, there will need to be a detailed formal evaluation undertaken.”

Is that evaluation in progress? It would give us an insight into whether the previous plan delivered what we would view as a success in meeting the targets that were set—they appear to have been met—but we must strip out a lot of other factors that may also have influenced the economic growth of the area, such as the growth of the economy as a whole.

We heard about the problems facing various sectors. What impact did they have on objective 1 investment in the Highlands and Islands? To ensure that this time we spend the money

correctly, a proper evaluation is crucial, so that we can be sure that the money that was invested last time delivered the significant benefits that seem to be shown in some of the document's tables. That information would allow us to make some kind of value judgment about the spending of objective 1 money in the Highlands and Islands in the past six years.

**Dennis Canavan (Falkirk West):** It is important to base whatever conclusions we reach on information that is as current as possible. The document contains much valuable information. Table 5 on page 14 alarmingly reveals the decline in certain sectors of employment in the Highlands and Islands. Employment is down 21.1 per cent in energy and water services and down 20.4 per cent in manufacturing. Employment in transport and communications is down by 16.8 per cent.

Those figures are for the period 1991-96. I wonder whether the clerk or the Executive could be asked to give us more current statistics on employment trends and other subjects mentioned in the document. If we are to make a critical analysis or come to any conclusions and make recommendations based on the document, it would help if our information was more current than that which the European Commission and the Council of Ministers had at their disposal when this document was drawn up.

**The Convener:** We can certainly write to the Executive and ask for that information.

**Ben Wallace (North-East Scotland) (Con):** I want to go back to the point that Dr Ewing and Maureen raised. Chapter 8 of the document is important; it indicates the priorities of the Executive and where it is looking to channel its money. There is scope for rebuilding infrastructure and, although there is no mention of measures on high fuel prices, the document talks about assistance for improving roads with European regional development funding.

The document—particularly on issues such as competitiveness and the funding of enterprise—does not mention the length of time for which funding would be available. I am keen to see more mention of whether money is for core funding. One often finds that many small groups in the Highlands and Islands and in Aberdeenshire are desperate for core funding over a period of time. Tourist boards are crying out for more than just an annual budget. That is not mentioned. The document states that they will get money, but does not state whether the establishment of long-term planning is a priority.

On Dennis's point, I am also worried about the assisted areas map. It is drawn up according to information on council wards from 1991. I know that that is the last available census information,

but I am concerned that, in going into such detail on council wards for assisted areas, we are dealing with information that is eight years old.

**The Convener:** Your point about the need for core funding over a period of time is slightly different from Maureen's, but we may have to make some decisions about where the emphasis should be placed. If we have limited funds, do we put the money into core grant funding or do we start to look at venture capital as Maureen has suggested? I do not know how much flexibility there would be to do both and I do not know whether we should try today to form a view on the idea of venture capital or wait for more information. I understand that you are saying that, beyond the six-year or seven-year period, money would continue to be circulated to get some longer-term benefit. We should, as a committee, form a view on that; I do not want to lose sight of that point.

**Allan Wilson:** My point is supplementary to what Dennis said about the table on page 14. Irrespective of the currency of particular figures—although that is important—the preceding paragraph refers to the importance of construction and transport in the economy of the area. However, the sectoral overview of the current position of the main economic sectors in the Highlands and Islands makes no reference to transport or construction. That seems to be an omission; we should ask the Rural Affairs Committee to look at that. I want a sectoral overview of transport and construction to be incorporated into the final report. It is also important to incorporate sectors such as retailing and perhaps self-employment into the final report and I would like reference to that to be made to the Rural Affairs Committee or to the Executive.

**Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab):** I just wanted to make a couple of points about references in the document to the social economy. The voluntary sector and the wider social economy are clearly identified as having particular value in terms of community development and so on.

Ben and Maureen have said that if the social economy is—as the document outlines—a key component of the overall economy, it is important that funding for the voluntary sector and community businesses and organisations is not short term. I want more information about how that funding will be sustained. The document mentions that it should be sustained over a period of time, but—this links into Maureen's point—I would like more commitment to establishing how that might be done.

**The Convener:** We can see from table 17 that nearly 9,000 people are employed in the social economy. Many of the employers will be in small



communities and their relative impact on those small communities will be very significant. I share Cathy's view. How do we sustain the funding?

**Dr Ewing:** The document contains some useful information on small businesses. Page 28 illustrates the area's dependence on small businesses and shows how many of those businesses are really small. Employers of one to 10 employees make up by far the greatest percentage.

In my years in Europe, the issue of small employers fell into a kind of vacuum because the really small businesses—which are the lifeline of the Highlands and Islands—are not so common in Europe. The good funding schemes that were made in Europe were designed for employers of 100 and more. We managed to get that figure down to 50 employees and more but, in the Highlands, that would be quite a big business.

I wonder whether we could focus on the need of really small businesses for access to the schemes that are available—the European Investment Bank had some attractive schemes. Such businesses could not access the schemes because of the cut-off lines. If those small companies had access to the sort of funding that is available to larger employers, even more businesses would be set up. It is in the nature of the Highlands and Islands to have many small businesses and many of them have traded very successfully—the impact of having 10 employees in an area of low population can be very significant.

**Ms MacDonald:** That is an important point. I agree with what Cathy said about the voluntary sector—which we should call the third sector. It provides employment and tries to keep people in some of the areas that are losing their population. The demographics show—Maureen will know this better than I do—that some areas are struggling to retain a skills base that will give any hope for employment in manufacturing or in anything other than third sector employment.

What Winnie says is important. Can we, through this committee, tweak the rules so that we reduce the number that must be employed by a business before it can tap into the investment fund?

**George Lyon:** I would like to highlight communications, which brings us back to infrastructure. We know about some of the physical problems—relating to piers, roads and ferry services, for example—and about the necessity for targeting specific areas of need. Highlands and Islands Enterprise and British Telecom invested substantially in improving the communications infrastructure over the last period of the plan. Already they are starting to lag too far behind—in terms of bandwidths and so on—to attract the inward investment in

telecommunications that is vital to many of the remote areas of Scotland.

A lesson that is always learnt in setting up businesses in the Highlands and Islands is that the distance from markets is one of the great barriers and one that is always difficult to overcome. If a business's product can go down the telephone line, that barrier vanishes. There is the potential to attract industries that are based on telecommunications.

However, it should be taken into consideration over the next six years that, if the infrastructure is not kept up to date, the Highlands and Islands will start to lose ground again. The existing good network needs continually to be upgraded because the technology is moving on.

14:30

**Lewis Macdonald (Aberdeen Central) (Lab):** The Rural Affairs Committee has not yet considered this document, although it asked Rhoda and me to attend this meeting. The Rural Affairs Committee has a broad rural development remit. It is interesting for us to see what there is in this document that may be applicable to other rural areas of Scotland. I know that there are members on this committee who will take the same view.

One of the useful things in this document is the stress that it put on the distinction in the Highlands and Islands between those areas that are doing reasonably well in Scottish terms and those that are on the edge and need extra assistance.

This document contains good background information, and very good evidence of the difficulties facing particular rural areas that are still suffering large-scale depopulation and so on. I am not so sure that the document contains the strategic pointers that we require to address those difficulties. This committee should do anything it can to encourage more attention to the strategy for the more remote and less populous areas that is needed to correct that imbalance.

**David Mundell (South of Scotland) (Con):** I agree with that point. I raised that general point at our previous meeting. One of the slight difficulties that there has been with the separation of Highlands and Islands Enterprise from Scottish Enterprise is that a lot of very good work under the previous programme has not always been promulgated to rural parts of Scotland that are within the Scottish Enterprise network. In considering the implementation of objective 2 funding for the other parts of Scotland, we have to build on the experience of the Highlands.

**Ms MacDonald:** I refer to pages 28 and 29. My point is about business closures and the inability to meet the targets that were identified under the

structural funds and other Government strategies. I want to know more about this. Why is there such a high rate of business closure compared with the Scottish average? Are the rates of business closure and small business closure in the Highlands and Islands very different from those in other rural areas in Scotland? Why does there not appear to have been such a dramatic contraction in that sort of business in the islands? How important is it that petrol prices are so high in the mainland areas that show a higher rate of business closure? I would like to have a bit more detail; I believe the figures, but I want to understand the reasons behind them.

**The Convener:** If we were to consider those reasons, we would need to contrast the figures for business closure with those for new business formation in the same period. Although the rate of business closure per 1,000 is 3.8, the rate of business formation for 1998 is 4.3 per 1,000. Ms Macdonald mentioned the islands; some communities, such as the Western Isles, have a relatively low rate of business closure but have an average rate of new business formation compared with the rest of the Highlands and Islands. The Highlands and Islands do better than the Scottish average in the creation of new businesses. There is maybe something to be explored, but if we do so, we must consider the positive as well as the negative aspects.

**Ms MacDonald:** Returning to what Cathy and Winnie were talking about, we need to know the size of the enterprises and whether they are self-employed or in the third sector if we are to direct funds and prioritise. I was not involved in a knocking exercise, Hugh, I was just trying to find out.

**The Convener:** No, but the message according to these statistics could be that the Highlands and Islands has been more successful than the rest of Scotland in creating and developing new businesses. We must find out what has been going on. The key for the European Committee is to find out what influence European funding had on that process, what influence such funding had on assisting the creation of new businesses, and how—by shifting in the way that Winnie is suggesting, and targeting smaller businesses—it could have helped some of those businesses to stay in existence which otherwise would have gone out of business.

**Ms MacDonald:** That should be set against the bigger background of the changing population pattern. I suspect that, if we examined it more closely, we would find that where there have been closures people have moved from rural areas to areas adjacent to towns. I do not know the answers, Maureen, I am just trying to make sense of it.

**Lewis Macdonald:** All that I can suggest, in response to that, is that the areas that appear to have the highest rates of business closure are Inverness, Lochaber and Orkney, areas which by many other criteria would be the most economically successful parts of the region.

**Maureen Macmillan:** I think that is generally because of the type of activity in those areas. In other areas the economy is fairly static.

**The Convener:** There are two slants on the matter. The first is this: has European funding been of assistance in developing and sustaining businesses in the Highlands and Islands? The second is this: could some of the businesses that went out of business have been helped to continue had European funding been available, taking into account the point that was made earlier?

**George Lyon:** I would like to elaborate on Margo's question. I live in an island community, and I know that many island communities—certainly in Argyllshire and further north—are dominated by small one-man businesses. That is just the nature of the beast. One of the challenges in trying to develop projects in areas such as that in which I live—if any project is going ahead—is to find a firm big enough to take those projects on. That is one of the barriers that sometimes prevent firms from benefiting from some of the infrastructure projects that go ahead: there are no firms with big enough critical mass to take on that type of project on their own. In Bute and Argyllshire that type of problem has been experienced quite often. Mainland firms come to those areas to take on the bigger projects. That is an issue that concerns the use of the investment money and how it benefits the local community.

In terms of start-up rates and failures, a lot of businesses stay for a year or 18 months, then suddenly go. Those tend to be one-man businesses that do all the small jobs that are required around the community. During my lifetime that has been the situation in many of the island communities. They tend to be dominated by small businesses that are out to earn only enough money for their own livelihood; there are very few big businesses that can take on construction projects of the type that sometimes come as a result of grant moneys and infrastructure projects.

There is a considerable difference between the gross domestic product of some less well-off areas in the Highlands and Islands and that of places such as Inverness. This time, funding needs to be targeted geographically. I come from an area where the GDP per head stands at 70 per cent of the Scottish average. We are the second poorest area in Scotland; only Skye and Lochalsh has a lower GDP per head. There is a feeling that the Inverness area benefited substantially from the

previous investment programme. Depopulation is an issue in areas out on the edge, such as the one in which I live, because of the lack of economic activity there. Geographical targeting should underpin the setting of priorities; we should start with the areas that need help most and set up strategies for them. That is how the plan should be delivered.

**The Convener:** Is that a general view?

**Ms Oldfather:** That is partly what I was saying earlier. We need to examine how we can redress some of the historic imbalances and problems that were associated with previous programmes. Table 35 on page 66 of the draft plan begins to address some of those problems by focusing on a much lower level. Much of the information and analysis presented in the plan is at the level of large geographical areas of the Highlands and Islands, but this table targets much better the smaller areas where action needs to be concentrated. To that extent, it represents a step forward. However, we will be working in something of a vacuum until figures are attached to the plan and it is put in the wider strategic context.

**Dr Winnie Ewing:** Last time the problem in many areas was that projects were not brought forward. Will we now look at who is responsible for doing that? Is it the local enterprise companies, is it a crowd of people with good ideas who happen to live in an area that needs funding, or is there an overall plan? We must decide, as that was one of the difficulties. I received complaints from people in Caithness who claimed that they did not get a fair share. That was probably true, but the reason for that was that no one came forward with projects. Who is to do the homework for projects? That is the question. From the beginning, Europe made it plain that it would not do the homework, but that people on the ground and the committees that they set up would have to do it. I was told that one reason for the disparity was that people on the ground did not come forward with projects. If we want to reduce disparities, we need to consider who should do what.

**The Convener:** That touches on a point that David made about a different area and a different programme. The remit of this committee is not to analyse the economy of the Highlands and Islands—that is for another committee—but to consider how European funding and assistance can help that economy. We have to ensure that we concentrate on that. Dr Ewing's point is very pertinent—there is no point in people getting funding if they are not able to take advantage of it. If we are concerned that people are not being assisted to submit projects, we should comment on that. We need to ask whether that is the case and, if so, why. We must also identify the people who can move things forward.

**Ms MacDonald:** Convener, how would we get that information? Nobody is likely to put up their hand and say that they screwed up and did not provide assistance. From personal experience, Maureen, Winnie, George and other folk sitting around this table must be in a position to comment on whether people in their areas have found the system for accessing funds flawed.

**The Convener:** Certainly people can be asked to provide anecdotal evidence, but there should also be statistical evidence available, not only from the Scottish Executive but from other quarters. If the statistics show that fewer projects have been submitted in one area than in others, we will want to know why. By all means, let us take anecdotal evidence, but we also need hard evidence. We can ask the Scottish Executive to obtain that from Highlands and Islands Enterprise, local authorities and others.

**Ben Wallace:** That ties into the bigger picture to which David and I alluded. In Aberdeenshire, there is very often a feeling about the enterprise companies and the need for feedback from them and scrutiny of what they have been doing. We would see that as a system set up by another part of the Executive to scrutinise the value for money of the enterprise companies and to see how they would work for the Highlands and Islands. It is perhaps not our position as the European committee to back the enterprise scheme, but I would have thought that our role is to prioritise that money and to look at the way in which the schemes are funded—by venture capital, for example.

14:45

**Maureen Macmillan:** I agree with David Mundell. I do not want there to be a dogfight between the various enterprise companies. That would be a disaster. We must have a view of the Highlands and Islands as a whole, and what will be good for it, including the peripheral areas. We must not have a competition which results in people feeling that they have been hard done by.

**George Lyon:** I have been involved in this process before, because I was chairman of one of the working groups in Argyllshire that was involved in drawing up the bids for the first plan. The enterprise companies have a role, but so does the local council. It is about partnership—they have to get together to ensure that they identify the key priorities for their area. An important layer below that is the enterprise company working groups. They are local groups that represent the community, and they have an important role to play in identifying projects that they believe should be submitted. The voluntary sector is also important. Where I come from, many of the voluntary organisations have already put forward

schemes, whether they are environmental programmes, or just good ideas for projects, which are feeding into the system. The way in which it is done is clearly identified: up through the enterprise network and the council working side by side. One of the big dangers is that if the enterprise company and the council do not work in partnership, two different sets of priorities are identified. There is nothing like a civil servant for exploiting two different sets of priorities—nobody gets anything. The onus is on us to ensure that we get partnership between the enterprise companies and the councils, and that the voluntary organisations come forward with some good ideas.

**The Convener:** That is how we would expect the process to work. Questions were asked earlier on—is it working, are people getting the help that they need, and if not, what should be happening—and I think that we can legitimately explore that. If there is a gap, not just in the plan, but in the process—and this goes back to something that David Mundell mentioned at a previous meeting—then we should be commenting on that process.

**Allan Wilson:** I agree. It is very important that local authorities and local enterprise companies work together to promote the strategic objectives of the plan. Even where they are working together, however, there are still areas where the level of preparedness of different communities varies within the local authority area. Our role should be to encourage those communities with the lowest level of preparedness to make themselves available so that they can take advantage of the strategic aim of redistributing money within the overall area of the Highlands and Islands.

**Dr Sylvia Jackson:** We talked about the detailed analysis that we think needs to be undertaken, and Margo MacDonald made a point about the various businesses that ceased trading. We will need to look at that analysis in terms of the time scale that we have for examining this draft and for the report. It will be important to build in what is possible. I would also like to support David Mundell's point. We must not lose the importance of the end of this process, and of the basic principles that we can draw from it and apply usefully, if not totally, to other rural areas.

**The Convener:** What I propose to do—bearing in mind that there is a time problem and that we are unsure of the timetable—is produce a holding document that reflects some of the views that have been expressed. There is a general degree of consensus. We may wish to revisit issues such as whether we should set up a venture capital fund or how we approach core funding, as those issues are worthy of further comment, and at least we have flagged them up. The document should be circulated to the committee and considered

further at the next meeting, if the committee agrees. It can be submitted as a holding statement to the Scottish Executive, in advance of detailed consideration of the matter, so that the Executive is aware of the tenor of our discussion today. In the meantime, we should try to carry out some of the more detailed work that members have commented upon today. If members agree, I will speak to the clerk and try to submit a statement over the next week or so, which members can consider in more detail at the next meeting.

**Ms MacDonald:** I am sorry to be a nuisance, but there is something that I want to get straight. At the very least, there appeared to be acquiescence around the table to the notion that a strategic plan should begin from a geographical starting point, as George Lyon said. Consideration should be given to those areas that either have not taken maximum advantage of past opportunities, for whatever reason, or were losing population for other reasons. Is that where we are starting? That is not a sectional approach—it is a geographical approach. It is about the redistribution of resources, in the widest possible sense, inside the area, which is fine with me. However, is that what we have said?

**The Convener:** I think that that was what we said. However, we can flag up the committee's very strong view that there needs to be geographic targeting in order to ensure that the communities of greatest need are assisted. That does not commit us to a final decision ahead of seeing the more detailed information, but at least it would flag up the issue to the Scottish Executive and, at an early date, make it aware of this committee's strong view that this point needs to be examined.

**Ms MacDonald:** That is one you owe me.

**The Convener:** If there is nothing else, I will draw this item to a close. I thank the members of other committees who have come to the meeting. Their contributions have been valuable and will be reflected in the document that we will produce.

## Documentation

**The Convener:** We will move on to scrutiny of European documentation. Before I go through the sift/scrutiny recommendation note page by page, do members have general comments to make on the way in which the document is presented or on how we are handling the process?

**Dr Winnie Ewing:** I have been looking at the various documents. One concerns additives, which is a very technical issue, and, without a lot more chemical knowledge, I could not say whether any of the document affects the area that I was elected for, or, indeed, the rest of Scotland. I see a warning light when I see spirit drinks, coming as I

do from the Highlands and Islands, and—

**Ms MacDonald:** When did that happen, Winnie?

**Dr Ewing:** When a document as technical as that is received, could we have a note stating if it will affect our industries in Scotland, or if it does not apply?

**The Convener:** I want to bring the clerk in, as he can answer your query.

**Stephen Imrie:** I advise Dr Ewing that explanatory memorandums from the lead Whitehall department usually accompany these documents. However, because of the recess, in this case the memorandum has not arrived at the same time as the document. All the documents that members receive will have an associated explanatory memorandum covering the details suggested by Dr Ewing. As I said in my comments at the start of the meeting, if members require a further Scottish dimension, they can request a supplementary Scottish explanatory memorandum, which will explain some of the policy issues from a Scottish perspective.

**Ms Oldfather:** I wish to raise a point for clarification. When we first discussed the sift/scrutiny process, I was under the impression that we would be working to very tight deadlines and time scales. None of the documents has a timetable attached to it. Did we just get lucky this time? Why do we have no information about when we must take decisions on some of those issues?

**Stephen Imrie:** We are lucky, in that Westminster is in recess. The Commons committee is not meeting during the recess; therefore, we have received no timetable information.

**The Convener:** Can we go through the document?

**Ben Wallace:** I would like some clarification. I thought that we would produce the Scottish explanatory memorandums and send them to the Westminster committee before it produced the explanatory memorandum. In other words, I thought that the Westminster committee would not send up the EM with the documents because the EM would be the final submission to the Westminster committee.

**Stephen Imrie:** We receive the EM from the Whitehall department, not from the Westminster scrutiny committee. The EM is a separate document, which contains the Whitehall department's further explanation of the European documents. When we receive the EC document, it would be normal for the Whitehall EM to follow within around 10 days. We can request the SEM as soon as we know that we wish to consider one of the EC documents. Again, the SEM will follow around 10 days after we receive the EC

document.

**Ms Oldfather:** May I assume, from the information contained in the sift/scrutiny recommendation note, that none of the proposals for council decisions require to be acted on before Westminster resumes at the end of October?

**Stephen Imrie:** Yes, that is my understanding, but because of the holiday period at Westminster it is difficult to confirm that information.

**Ms Oldfather:** So we will not miss any opportunities to comment?

**Stephen Imrie:** I have not been alerted by Westminster or by the Executive that that will happen.

**The Convener:** We will go through the document page by page. Are we agreed on the recommendation on page 1?

**Dr Ewing:** Which one?

**The Convener:** The one on the sift/scrutiny recommendation. The first page of that concerns the action programme to promote the integration of refugees. We are recommending that that goes to the Justice and Home Affairs Committee.

Do we also agree with the recommendation on page 2?

**Dr Ewing:** It would be helpful if you could mention the subject matter.

**The Convener:** That is on the fishing industry as affected by common fisheries policies. We recommend that that goes to the Rural Affairs Committee.

**Dr Ewing:** I have a question on that, which may be urgent. The proposal for a council regulation contains an alarming feature; it proposes to abolish the present advisory committee, because it does not work, and to establish a new one. It is difficult to find out who the committee members will be or how they will be chosen, but there are one or two points that we should be alerted to. The council hopes to reduce the size of the committee, while ensuring that it consults the trade organisations in the fishing industries of Europe. It goes on to say that it will give preference to European organisations. I want to be sure that our Scottish organisations will not be cut out by this additional requirement, which did not apply to the old advisory committee.

This matter is urgent; we cannot wait around to find out about it while it hardens into a nasty situation.

**The Convener:** We are recommending that the lead responsibility for that type of consideration should rest with the Rural Affairs Committee. Once that committee has reached a conclusion, it would

refer back to us. We can then make further comment, if we feel that something has been missed. In the first instance, we are suggesting that the Rural Affairs Committee should examine it from some of the perspectives that you mentioned, Dr Ewing.

**Ms MacDonald:** I do not want to play awkward squads, Mr Convener, but is this not a point of principle? Perhaps we should indicate to the Rural Affairs Committee whether we think the way in which the EU operates in this instance, in relation to trade associations, suits our situation.

**The Convener:** It is for the Rural Affairs Committee to come to its own conclusion. If we feel that it has missed some of the points that we have mentioned here, we can make a submission. We want the Rural Affairs Committee to consider it and report back to us. At that point we can decide whether these points have been covered.

11:00

**Dr Ewing:** There is a problem with the time we have for that process. The small print suggests that the regulation will come into force a number of days after it is published in the official journal. We need to know when that will be so that we can decide how urgent the situation is. Earlier, we said that there was not much urgency as regards these matters, but this could be the exception. We do not want to find out that the Scottish Fishermen's Federation cannot go to Shetland.

**The Convener:** We have been told that the explanatory memorandum will be available in a few days' time and, therefore, that the Rural Affairs Committee will be able to consider it.

**Dr Ewing:** I want the minutes to record that I raised my concern.

**The Convener:** We can come back to the issue later. We will ask the Rural Affairs Committee to consider that document.

**Ben Wallace:** As was mentioned in our first meeting, there is some urgency in getting the matter to that committee. We believe it to be urgent but how are we to ensure that the committee decides to examine it in time?

**The Convener:** When we refer the document to the Rural Affairs Committee, we will ask that it be considered as a matter of urgency. If, when the explanatory memorandum comes through, we find that a deadline has to be met, we can return to the matter even if we have received nothing back from the Rural Affairs Committee. Unless we hear something to the contrary, we have to assume that the Rural Affairs Committee will examine the document and report back to us.

**Ms MacDonald:** I am sorry to have to pursue

this and I am not an expert on fisheries, as everyone will have guessed, but I think of the proposal as structural. On page 3 of the sift/scrutiny recommendation note, we read:

"Ensuring that European trade organisations are freely accessible: The Commission must ensure that it recognises only European organisations whose membership is open to all suitable national organisations."

Does that include the Shetland fishermen, or are only British organisations included? Previously, all fishing organisations had access to the European Commission. Is it in our best interests for them not to have direct access, but to be filtered through the British organisation, given that there are great differences between, for example, the Shetland fishing industry and the Cornish fishing industry?

**The Convener:** We will ask the Rural Affairs Committee to examine the document and, in particular, the points that you raise. At that point, if there is a need for us to comment further, we will do so.

**Ms MacDonald:** I am sorry if I was clumsy in expressing myself. That is what I suggest we do. We should not steer the committee but recommend that it consider my points.

**Dr Sylvia Jackson:** I would like to extend that recommendation to the part that covers the inclusion criteria. The document says not only that organisations be national, but that they be European trade organisations. I would like the Rural Affairs Committee to consider the whole of the paragraph at the bottom of page 3.

**Dr Ewing:** If there is a requirement to be a European trade organisation, you can bet your life that the Spanish fishing associations will all magically be such organisations. Excuse me for being a little cynical after 24 years in Europe.

**The Convener:** On page 3 of the sift document, we recommend no further action on dispute settlements that are related to the law of Ukraine.

On page 4, we recommend no further action on the issue relating to Slovenia.

**Dennis Canavan:** No explanatory memorandum has been received in relation to the business on page 5, yet the recommendation is that no further action be taken. I am a wee bit concerned as the text refers to the rights of movement, residence and entry of citizens of the European Union. It also refers to expulsions from the European Union. I have a natural suspicion about matters relating to expulsion.

**Ms MacDonald:** That is quite understandable.

**Dennis Canavan:** I wonder whether you, convener, or the clerks, could elaborate on the implications of the document for people in Scotland and throughout the European Union?

**The Convener:** The recommendation is down for no further action because the document is not a proposal for legislation, it is merely a Commission communication. If there is an issue that should be examined, we could consider the communication—presumably we will not be able to influence it—or we could refer the communication elsewhere.

A few of the documents are Commission communications and I am willing to listen to the views of the committee on how we approach that. Do we want to bring back that communication?

Given that we are on a learning curve, it may be that this communication in particular would allow us to consider not only the points mentioned by Dennis, but also the general implications of Commission communications. Having examined it, we might decide that there is no point considering Commission communications, but at least we will have gone through the process of learning what they are about.

**Ms MacDonald:** Yes.

**Dennis Canavan:** Could you have another look at it?

**The Convener:** Yes, we will put it on the agenda for the next meeting.

**Dennis Canavan:** Yes, because I would hate to think that our recommendation for no further action would mean that some time next year someone would find themselves expelled from Scotland, or would have their freedom of movement within the European Union restricted, because we did not raise any protest.

**The Convener:** We will bring it back in order to consider two issues. First, the specific issue that is mentioned in the document and, secondly, the status of Commission communications and our ability to influence them.

**Ms Oldfather:** Some Commission communications can be very long. I do not know about the one that we are talking about, but often there is an explanatory memorandum at the beginning. If not, perhaps we could get the clerks to prepare a synopsis in order to cut down the amount of reading that we need to do.

**The Convener:** Okay, that is a good idea. Page 6 refers to Slovenia, again the recommendation is that no further action is needed. Page 7 is about modernising social protection and we recommend that we send the document to the Social Inclusion, Housing and Voluntary Sector Committee, simply for its interest.

**Ms MacDonald:** Yes, although my question is why.

**The Convener:** Well, maybe it will learn something.

**Dr Ewing:** It seems to be lots of nice words and no practical solutions to anything.

**The Convener:** It could be. Page 8 is about health, education and social protection in the harmonised index of consumer prices. The recommendation is that no further action is necessary.

Page 9 relates to the agreement between the European Community and the Government of Denmark and the Home Government of the Faroe Islands. Again the recommendation is that no further action is necessary.

**Dr Jackson:** Could we go back to page 8, briefly? We do not have a copy of that document, we have only a description. I do not know whether I am alone in this, but I found it a wee bit difficult to understand. We could have had more description, although coming back to the point made earlier, maybe it is a very technical document. However, I would like some more information in order to understand it a little better.

**The Convener:** It is to do with how products are treated on the index of consumer prices and with whether we think that that issue is one for this committee or for any other committee that will be examining consumer prices in the contexts of health, education or social protection. *[Interruption.]* Sorry—was documentation circulated on that point? It should have been, but it is not indicated on the recommendation note that it was circulated.

**Ms Oldfather:** At our previous meeting, I mentioned the possibility of having some information provided on the intranet, so that if there was a query we could examine it. I know that there are interim problems in doing that, but the documents came to me on Saturday. With the meeting being today, there has been very little time to request some items to determine at today's meeting whether we are happy with the recommendation for action in matters such as this. How can we deal with that administrative issue?

**The Convener:** One thing that we can do is start the sift process earlier. In the meantime, do you want this matter brought back or referred to another committee?

**Dr Jackson:** In the interim, it would be fine just to have a copy of the documentation so that we can have a look at it.

**The Convener:** We should bear in mind what Irene said earlier about some of the documents: about getting a synopsis rather than the full copy sometimes.

**Dr Jackson:** A synopsis would be fine.

**The Convener:** We have covered page 9 of the

sift/scrutiny recommendation note. Page 10 deals with

“common organisation of the markets in processed fruit and vegetable products”.

**Ms MacDonald:** Support your local port!

**The Convener:** The recommendation on page 9 is for no further action.

**Dr Jackson:** Could we return to page 9—I am sorry to be difficult, but it is getting quite hot in this room and I am losing the place a little.

Does the description on page 9 of the note include the farmers’ ferries? I am referring to the

“Protocol to enable the trade in live animals and animal products”.

**The Convener:** That applies to Denmark and the Faroes.

**Dr Jackson:** I just wanted to check that they were the only places concerned.

**The Convener:** The recommendation on page 10 on Portuguese quotas is for no further action.

On page 11, the recommendation about “food additives other than colours and sweeteners”

is that, in the first instance, we ask the

“Health Committee for their view s”.

Once we have heard from that committee, it is suggested that we decide whether we need to scrutinise it at a later date, because some technical issues may need to be considered.

Page 12 covers the draft model agreement to co-operate with third states. The recommendation is to ask the Justice and Home Affairs Committee for its views. Once we have its views, we can decide on our level of scrutiny.

Page 13 of the sift/scrutiny recommendation note covers a Commission working paper on

“the principle of mutual recognition in product and services markets”.

The recommendation is no further action.

**Cathy Jamieson:** I do not think that there is enough information to gauge whether that paper is of relevance. I am not being critical—I am aware of the volume of work involved.

**Ms MacDonald:** Was that the point that Winnie made at the previous meeting, when she was talking about the point at which we get involved?

**Dr Ewing:** Are we talking about the mutual recognition of qualifications of people engaged in those industries?

**Ms MacDonald:** Yes.

**Dr Ewing:** That can be very important for our

people. There are problems with Scots-Italian teachers, ski instructors in France—

**Ms MacDonald:** That sounds good.

**The Convener:** We should ask for more information on that before we make a decision.

Page 14 deals with

“synthetic fibres of polyesters originating in Taiwan”.

We are asking the Enterprise and Lifelong Learning Committee for its views and, once we have heard them, we will decide on the level of scrutiny that we require. It is an important matter for the textile industry in Scotland. We are agreed on that.

If members have any comments that they think may help to improve the sift process, please speak to Stephen Imrie between meetings.

**Allan Wilson:** Correct me if I am wrong, convener, but I think that you have circulated the papers on those points for which some form of action is recommended and not circulated those for which none is recommended. If there was a time lag between our receiving the recommendation note—which could be circulated generally—and the meeting, we could sift it and advise you if we wanted further information on a particular item in advance of the next meeting, such as a copy of the documentation pertaining to it.

15:15

**The Convener:** If it was felt that it would be useful to circulate the recommendation note, we could do that.

I do not know whether the minister has arrived. If not, I suggest that we address the fourth item, on requests for further briefings, and then take a break of five minutes before we hear from the minister.

## Further Briefing

**The Convener:** One issue that was raised with the Presiding Officer at the meeting of conveners was a concern that the clerks to the committees were being asked to produce policy papers, which to some extent is beyond their remit. There were also work load implications.

I have found the clerks of this committee very co-operative in producing a number of documents at short notice, and I do not want to abuse their willingness to help. Nevertheless, there will be issues on which we want background information, and we should consider whether it can be obtained from elsewhere, because there may be a time when we will be advised that we must be more careful about the requests that are made. Is



there anything that we need or would like for the next meeting?

**Ben Wallace:** The Amsterdam Treaty brief is useful, but the treaty heralds a big change in Europe and I would not mind a further explanation of how it dictates to some of the issues that we may be considering. Previously, I brought up how the priorities in the Highlands and Islands are partly defined by the way the Amsterdam Treaty looks at the future.

**The Convener:** Would it be helpful to have someone lead a discussion on that, or would you rather have the information in a document?

**Ben Wallace:** I would not mind someone coming from the European Commission or from the offices that it has here.

**The Convener:** We will look into that. As well as the document, we may have someone to take us through it and prompt some discussion on the treaty. Is there anything else?

**Ms Oldfather:** I mentioned previously the INTERREG programme. Will the briefing on that programme be available for the next meeting? I appreciate the clerks' work load, but it would be helpful to have that information, given the timetabling of the programme.

**Stephen Imrie:** The briefing is currently on my computer screen upstairs, and if I were not working here I would be working on that. I will endeavour to get the briefing to the committee before the next meeting.

**The Convener:** You mean that you do not get 17 weeks' holiday? We will need to see about that.

Is there anything else?

**David Mundell:** Following an experience that I had, it might be appropriate to issue a reverse briefing to our Westminster colleagues, because a Westminster member I spoke to felt that it was inappropriate that as a member of the Scottish Parliament I should be dealing with European matters, as he understood European matters to be reserved. This is the area in which we will need to work most closely with our Westminster colleagues. It might be appropriate for us to set out that we want to do that in a positive way.

**Dennis Canavan:** Who are these Westminster colleagues?

**David Mundell:** We had a discussion about how in Europe people were accustomed to the complexities of political relationships and I think that it is something that we may have to get accustomed to.

**The Convener:** I will rely on Mr Mundell's good services to persuade his colleague of how wrong he is.

**Ms MacDonald:** The European answer is subsidiarity.

**The Convener:** We will break for five or 10 minutes, depending on when the minister arrives.

**Maureen Macmillan:** Before we break, can I give my apologies for having to leave.

15:20

*Meeting suspended.*

15:30

*On resuming—*

## **Structural Funds (Objective 2 Eligibility)**

**The Convener:** I welcome Jack McConnell, the Minister for Finance, and his officials. We propose to invite the minister to make a short presentation, following which I will invite each member of the committee in turn to ask him a question, hear his reply and, if necessary, follow up with a supplementary. If we still have time once everybody has asked a question, we will return to other questions that may not have been addressed.

**The Minister for Finance (Mr Jack McConnell):** Thank you very much, Mr Henry. It is good to be here. It would be helpful if I made one or two introductory remarks about the relationship between me, the Executive and the committee, before commenting on the structural funds and objective 2.

It is important that the Executive works closely with the committees, and particularly important, given my role in relation to the European structural funds and, to some extent, in other European matters, that I have a strong and constructive working relationship with this committee. It is probable that more practical, decision-making work will regularly be done here than in most committees. It could be helpful to the Parliament and to the Executive to have that relationship, given the experience, the level of interest and the expertise—across all parties—of the members who have been selected or have volunteered to take part.

There is much work to be done, and Colin Imrie and Jim Millard, who are here today for this presentation, and I will be happy to come back on other occasions to discuss some of those issues in greater depth.

The committee will be aware that its members and the Executive have a number of practical responsibilities, including implementation of the

structural funds and EC legislation and the representative role for Scotland.

We also have a wider role, which is to inform Scotland about European affairs and the work of the Parliament in relation to them, to represent Scotland externally and to promote European issues and ideals in Scotland. I hope that we can do that together in a united fashion, as well as having political debates and discussions when they are appropriate. Within that context, I will make a few remarks about the structural funds, but I am happy to answer questions from the committee.

Scotland has done particularly well from European structural funds over the years. In the 1980s, a Scottish commissioner in Brussels was responsible for structural funds. That and the good work done by Strathclyde Regional Council and then by Highland Regional Council led to Scotland receiving good deals from the structural funds at the time and since. The devolution settlement recognises that: it gives us a clear responsibility for implementing the programmes of funding inside Scotland, a role in feeding into the UK's representations on the frameworks and the funding that is agreed at a European level, and a guarantee of the allocation of the budget that exists in the overall Scottish block.

The European Union agreed in Berlin in March this year to some fairly dramatic changes in funding, which the committee will be largely aware of already. The efforts in the community to focus funding on areas of real need should be welcomed by everybody who has an interest in social cohesion and economic prosperity across Europe. The impact for Scotland and the rest of the UK of enlargement, of economic changes and of an overall reduction in population coverage across Europe are clear. In March, the UK got a good deal and so did Scotland. The decision to maintain funding for the Highlands and Islands when it fell so far short of automatic objective 1 criteria, the decision to have a 67 per cent safety net for the objective 2 coverage and the agreement on transitional moneys for the areas that would lose out across the UK should all be welcomed by us.

That leaves us with decisions to make about the new objective 2 framework, which covers most of the old objectives 2 and 5b and many of the Community initiatives that were taken up in many areas in Scotland during the past decade. The UK must agree a map of population coverage to be presented to the Commission. It must be fair and reasonable and, as far as it is possible to assess, target the potential for funding on the areas of most need.

The committee will be aware of the four strands that make up objective 2. They need to cover the old fisheries areas, areas that are suffering rural

depopulation, areas that are suffering industrial decline and inner-city areas that have multiple difficulties. They are important strands that we recognise as top priorities in Scotland, but they are areas where Scotland's position relative to the rest of the UK as well as to the rest of Europe has improved in recent years. For that reason, we face a challenge in securing the maximum amount of population coverage—and therefore funding—for Scotland in the new objective 2.

Scotland's position in relation to many of the poorer areas of Europe is much stronger than it used to be. A point I would like to make very forcibly is that even the figure of approximately 40 per cent of Scottish population coverage, which was being speculated about at the end of July, is significantly above what Scotland would get if population coverage were based on gross domestic product and compared with the European average, and significantly above what would be the case in England, despite the fact that the economic performance of Scotland and England is now much closer than it used to be.

We have to be very clear that Scotland has had, over the years, a very good deal from European funding. Even with the reduction in population coverage, with the greater focus on targeting areas of real need it should be possible for Scotland to continue to get a very good deal. Our job is to ensure that money is spent in the best way possible.

The Executive is very keen that the map that is submitted by the UK is as focused as possible on areas of need, so we support the move towards the grouping of local authority wards to design the map. We want to ensure that that happens as much as possible so that areas in Scotland that deserve European funding are well covered within the overall regulations.

The budget for European funding in Scotland is guaranteed as far as we can see into the future, which at the moment is just over the next two or three years. Any reduction in population coverage in Scotland will not affect that budget for the next two and a half years at the very least, until the spending round for the final year of this Executive in Parliament.

We are in a strong position; I want to touch briefly on what might be the way ahead. This may not be the immediate focus of the committee's attention, but I assume that the committee will want to debate a number of issues in the weeks and months ahead.

We have to prepare programme plans, and I am aware that the committee has already discussed the Highlands and Islands draft plan that is out for consultation. A plan for objective 3 status will be published in the near future, and once the map is

agreed, there will have to be plans for objective 2 in different parts of Scotland.

The programme plans should come back here for discussion. I would like this committee to discuss the programme monitoring committees and the programme management executives, which have responsibility for agreeing the detailed work on those plans and monitoring their implementation. The committee must be clear that I am absolutely committed to a local approach to the implementation of the structural funds within the overall Scottish priorities and framework.

We should take a partnership approach, which has been successful during recent years. The new committees and the Executive must work efficiently and effectively to ensure that the moneys are best targeted and focused on those who are successfully delivering local projects as well as on the communities that most need funding.

I will continue to welcome the committee's views on those matters and on the immediate matters that face us in September 1999. I am also keen to hear the views of committee members on strategic priorities, urban and rural, on the matter of wards versus local authority areas, and on the variety of choices that face the British Government in making its representations to the Commission on the map for the whole of the UK, including Scotland.

**The Convener:** Thank you very much for that short but comprehensive introduction. Some of the issues that you touched on have been discussed at this meeting and at previous meetings. For example, although we have not discussed objective 2 status, we have discussed the Highlands and Islands, and there was a strong current of opinion that assistance should be targeted on need.

You mentioned the future of programme monitoring committees, and you also talked about the way in which things worked previously. David Mundell spoke about learning from some of the difficulties of earlier programmes. Although we might not have the opportunity to go into that subject in much detail today, that is a topic about which the committee will want to come back to you. There is a strong view that we must learn from earlier inadequacies and problems to try to improve matters for the future.

I was interested to hear you talking not only about Scotland having done well, but about Scotland's development. The document that Scotland Europa produced at the beginning of the debate on the change to structural funds, entitled, I believe, "Transition to Prosperity", stated the strong view that partners in Scotland Europa recognise the value and worth of European

funding.

We recognise the improvements that have been made and we in Scotland took the mature and responsible view that we could not continue to argue for more of the same. To do that would be to recognise that we had failed. The precipitous withdrawal of funding from areas that were managing the transition process could hinder the very process that was under consideration. Therefore, although we recognise that at some point we could not continue to justify some of the funding that was awarded because of our deprivation and poverty, nevertheless we would lose the benefit of some of that investment if assistance were withdrawn from certain areas too quickly. We are concerned that the areas of Scotland that are most in need continue to receive assistance as they struggle to come through a very difficult period.

That is enough from me. Starting with Allan Wilson, let us go round the table and ask the minister questions.

15:45

**Allan Wilson:** As you mentioned, there have been informal briefings and press speculation—some of it ill informed, I believe. Perhaps you can address the primary question that concerns the committee, the Parliament and the people of Scotland. Will Scotland lose out in its financial settlement as a result of what is proposed, and how will communities that have come to depend on social funding be able to access that money?

**Mr McConnell:** There are a number of elements. The overall Scottish budget will not be affected by those decisions. We will spend the same amount this year that we spent in the previous year on European structural fund projects as part of the overall Scottish assigned budget, and that will not be affected by those decisions. The budget will rise or fall in line with the funding policies that have been agreed and the decisions that are taken here and elsewhere. The amount that we are able to allocate to European projects will fall as the population coverage falls and European funding allocated to the UK falls. We should be clear that in the first three years of the new programme the amount that is spent on projects in Scotland is—if anything—perhaps likely to increase slightly as previous commitments work their way through the system.

We face some decisions as an Executive and correspondingly as a Parliament in the final years of the new seven-year programme as the amount of money will taper off with the population coverage dropping, but the money will still be there in the Scottish budget. It will be for the Executive, subject to the authorisation and

agreement of the Parliament, to propose what to do with any moneys that are freed up by the reduction in population coverage. An issue that committees of the Parliament could usefully discuss in the months and years ahead is possible uses of that money to help areas that have lost out because of their relative prosperity in relation to communities elsewhere in Scotland and Europe.

It is important to recognise that a significant amount of transitional funding is available. No area in Scotland covered by the new objective 2 will lose out entirely as a result of the reduction in population in the next period, because the transitional funding agreed—and it was lobbied for hard by the British Government—will allow some coverage for those areas in terms of approvals in the years ahead.

**Allan Wilson:** We discussed that latter point briefly when we had a briefing at our previous meeting. Can you give us the reassurance that there is sufficient flexibility in the disbursement process within the block grant to ensure that communities—whether those are on NUTS 4 or on NUTS 5—will be able to access public money for those purposes, whether or not it is classed as objective 2 money?

**Mr McConnell:** I have to be careful, because I cannot tie the hands of the Parliament, which has to make the decisions on the budget, or of the next Parliament, because our session lasts for four years and this programme lasts for seven. What I can say is that for the first two—and I would expect three—years of this programme, the amount spent on European structural fund projects in Scotland will be roughly the same as, and perhaps in year two slightly higher than, it is at the moment. For the years following that, it will be up to the Executive and the Parliament to decide what the moneys that will be freed up by the reduction in population coverage will be spent on. One of the options would be to ensure that some kind of funding package was available to areas that had benefited—perhaps, for example, working in partnership to attract industry and develop new projects from the previous objectives 1 and 5b.

**The Convener:** I might come back to that at the end of this process.

**Ms Oldfather:** One of the problems that has plagued European structural funding, and particularly European social funding, has been late payment. The voluntary sector is dependent on that problem being resolved. Given that the time scale is tight in agreeing those regulations, can the minister give an assurance that contingency plans are in place, should there be any slippage in the programme?

**Mr McConnell:** I hope to make an announcement—which has not yet been agreed—

within the next two to three weeks, about the period between the end of the current programme and the start of the new one, which is likely to be some way into next year. I estimate that that gap could be between four and six months. We want to ensure that organisations that currently benefit from grant aid will be aware, at an early date, of their likely situation in the new year. I cannot commit myself to an announcement today, but I can commit myself to a firm announcement on that in the next three weeks.

**Ms Oldfather:** Can we be reassured that organisations whose staff and programmes are dependent on European social funding—even though it is a new programme period—will be viewed sympathetically? Knowing that this funding will come, even if it will be late, is the cornerstone of much of their work.

**Mr McConnell:** I do not think that I can make a firm announcement today about what will happen next year, but I can commit myself to making an announcement within the next three weeks. I can also say that when that announcement is made, it will be communicated as quickly as possible to everyone who is affected by it, so that they can know clearly how they will stand at the end of the year.

**Ms MacDonald:** The last meeting of this committee coincided with the announcement of the loss of jobs at Newbridge. We discovered that, in that situation, folk could fall between the two stools of the old and the new programme. I was therefore interested to hear your remarks about your own time scale for your announcement of starting dates for the new programme and the tailing-off in funding for people who might have been able to use that funding under the old programme. That was certainly the case in respect of retraining at Newbridge.

Can you give me an assurance that if there is still money in that pot, it will be accessible under the old system? You are talking about making a firm announcement in two or three weeks' time. The matter is so urgent that we would also want firm notice of whether the old moneys could be accessed to tail off the programme, as no start date is yet available for the new programme.

**Mr McConnell:** That is not quite the same question that Irene Oldfather raised, as it involves a different set of circumstances, and I want to be absolutely clear in my reply. There are two issues. First, activity is already under way involving officials to ensure that where packages are possible, they can be put in place. If that is possible within the existing funding programmes, it will be considered.

Secondly, we must examine what will happen in the future. One of the questions that the

committee raised was whether it would be possible to access funds for assistance in such circumstances in the future. I hope that when we examine the new plans, we will ensure that that is a clear priority within those plans. Also, we recognise that some of the flexibility in the overall Scottish budget, which might exist because of the reduction in the population coverage, might free up resources for a flexible response in areas that are not necessarily covered by the new population map but that are affected by economic decisions which cause such an impact on local communities.

**Ms MacDonald:** The continental situation provides a good example of the switch from one programme to the other. When I spoke to the member for Edinburgh West, Margaret Smith, she said that on the new map Newbridge might just manage to squeeze into the Kirkliston ward. However, it might not manage to squeeze into that ward; it might still be in West Lothian. That is what I mean by falling between two stools. If you do not mind my telling you, that is a good example to show why you must target closely. I am concerned that the timetabling might mean that we miss the boat.

**Mr McConnell:** On the day after the announcement about the Newbridge plant was made, I announced some new moneys for European social fund projects in Stirling. Some of the people who were present were on their way to Newbridge to take part in a meeting about that kind of initiative. It is important to recognise that ESF money—objective 3 money—covers the whole of Scotland, so regardless of the population coverage of the map for objective 2, the training money that exists for such a situation covers all those areas. It is important to ensure that priority is given in the plan to areas that suffer an immediate economic impact.

**Dennis Canavan:** I would like to ask about the objective 2 map and, in particular, about the geographical unit for eligibility. There were reports last month about a Cabinet sub-committee meeting having to be cancelled or postponed because of some disagreement among various Cabinet ministers. The report said that the Secretary of State for Trade and Industry, Stephen Byers, demanded that eligibility for objective 2 status be based on the boundaries of entire councils rather than on those of smaller council wards. The same report said that Mr Byers's proposal would release more money for Scotland, yet when the Secretary of State for Scotland, John Reid, appeared before the Scottish Affairs Committee at about the same time, he indicated his preference for the electoral wards as the best units of measurement for objective 2 status. Does the Scottish Executive agree with the Stephen Byers proposal or with the John Reid proposal? Why?

**Mr McConnell:** The confusion between what were reportedly the views of ministers at the Department of Trade and Industry and the clear view that was expressed by the Secretary of State for Scotland at the Scottish Affairs Committee in the House of Commons is a good example of why it is not always helpful for me or anybody else to speculate about what might be happening between different departments. That is particularly true when the departments are in Whitehall.

It is clear that both the Scottish Executive and the Scotland Office ministers support a ward-based approach. Whether that approach results in the overall Scottish population coverage being up or down by the odd 10,000 of population is not the issue. What is important is whether the result is that the neediest parts of Scotland are targeted effectively or that population coverage is wasted on areas that would never receive grant aid because of their relative economic prosperity. The announcement of the assisted areas map showed that, although there was a reduction in the overall coverage, the areas that were covered by the new map were the ones that had received grants through assisted areas map status. The Scotland Office ministers and the Scottish Executive have been keen to ensure that we target as much as possible the areas that deserve and need that approach most, in as many parts of Scotland as possible. We are continuing to press for that approach behind the scenes and publicly.

**Dennis Canavan:** You mentioned the assisted areas map. We were told by one of your senior officials, when he came to give evidence to us just a few weeks ago, that there are two completely different maps. There is the assisted areas map and the objective 2 map. Surely there must be some kind of relationship between the objective 2 map and the assisted areas map. The assisted areas map is based on electoral wards. For example, would it be possible, either in theory or in practice, for an electoral ward that is excluded from assisted area status to be included on the objective 2 map—or the other way about?

16:00

**Mr McConnell:** In theory, yes. However, while there is flexibility, and the two maps are essentially separate, the Commission would like the closest possible correlation between the two. That is taken into account by the UK Government when it submits the second map.

**Dennis Canavan:** Could you answer this specific question: is it possible for a ward that is excluded from the assisted areas map to be included on the objective 2 map, and vice versa?

**Mr McConnell:** Yes, but it is important that we recognise, on the fisheries side, for example, that

there is a difference between the two maps. They cannot be identical, but we and the European Commission want them to be as close as possible.

**The Convener:** At the end of the round of questions we return to the first question, which was about funding. I want to explore further your comment that, even if areas are excluded from the objective 2 map, there should be the financial flexibility to assist some of those areas. That is an important point for us, and is a shift in thinking that must be teased out further.

**David Mundell:** Given what you have just said about the inappropriateness of speculating on what Dr Reid and others said, and given that Dr Reid is a member of the sub-committee that will decide the issue, do you agree that it would be wholly appropriate for Dr Reid to agree to meet this committee, so that we could avail him of our views and he could let us know what his current thinking is?

**Mr McConnell:** That is entirely a matter for Dr Reid and for the committee.

**David Mundell:** You have no view on that?

**Mr McConnell:** No, it is entirely a matter for Dr Reid and for the committee. The relationships between the Executive and Dr Reid's and Mr Wilson's offices are strong in terms of communication and joint action on the matter. At the same time, it is entirely a matter for this committee as to whether it wants to invite Dr Reid and entirely a matter for him and for you as to whether and when he appears.

**Ben Wallace:** At the beginning of your evidence you alluded to the fact that Scotland can interpret EU regulations and directives differently from England. That was confirmed for me by the European Commission last week. That being the case, do you recognise that in future there might be an element of conflict? For example, if the Scottish Executive party was different from the party that was running Westminster, our interpretation of EU legislation might be different. If our interpretation was regarded as void by the EU, it would take action against Westminster, not us. For example, if the Scottish Executive refused to implement an EU directive on fisheries because it would damage our industry, the EU would fine or sanction Westminster, and it would be up to Westminster to take action against us. Who would police our implementation of EU regulations from the Westminster end? That could be a point for friction in the future.

**The Convener:** Before the minister answers—and it is entirely up to him whether he does—I would like to point out that we agreed to discuss objective 2. The area that you are touching on is much wider than objective 2 and is not what we are here to debate. I will leave it to the minister,

but I would like the discussion to focus on objective 2.

**Mr McConnell:** I have great faith in the people of Scotland not to elect representatives to this Parliament who would do that sort of thing.

**Ben Wallace:** I raised the question because you alluded to it earlier.

**Mr McConnell:** I am happy to answer the question, and that is my answer. I do not believe that the people of Scotland would ever elect a majority of members to this Parliament who would take that sort of action.

**Dr Sylvia Jackson:** I am sure that we are all relieved that you intend to focus on the areas of most need through the ward approach.

It might be because of ignorance—I have not read the briefing sheets properly—but I am still unclear about the transitional arrangements and the flexible approach that we have discussed, nor am I clear about what is referred to in the briefing as an agreement for a “safety net”, which will lead to a reduction in population coverage under objective 2 of not more than a third. How does the safety net relate to the transitional arrangements for funding?

**Mr McConnell:** The safety net was an agreement that was reached following negotiations between the UK and Berlin. The rationale for the safety net was that, although it was correct for the European Union to target the funds to areas that needed the money most, other areas that benefited from high population coverage would lose out. Britain was able to ensure that we would have high funding for the next seven-year period, although our population coverage might fall dramatically. That does not apply across every region or nation of the UK because there are relative levels of need and prosperity.

Over the past 15 years, Scotland has done well out of the structural funds. Our population coverage has been high and our economic position relative to the rest of the UK has improved since about 1988. That is a good news story for Scotland and reflects favourably on people of many political persuasions, local authorities, the voluntary sector, the Scottish Office and both political Administrations. We have a duty to secure the best population coverage for Scotland. Although Scotland's economic performance has improved and although, on any comparison of gross domestic product or other economic indicators, we will get less, the Scottish population coverage under objective 2 is likely to be about 40 per cent, while the population coverage south of the border is likely to be about 24 per cent. Scotland has been successful both in securing funding and in spending that money well.

**Cathy Jamieson:** I welcome the fact that you mentioned targeting resources to the areas of greatest need. There has been a lot of concern that areas that currently receive funding might lose out under what people assume to be the current proposals. I am not making a special plea for my area—the convener would not let me do that and I am aware that other areas experience similar problems—but places such as South Ayrshire, which have a mix of rural and urban areas and use funding for skills training for tourism and business development, could lose out.

I seek an assurance that the areas of greatest need that you mentioned would be defined by poverty indicators such as high unemployment and high incidences of social exclusion, and would include areas linked to the social inclusion partnership areas as well as areas where there was an opportunity for development based on what had already been undertaken.

**Mr McConnell:** As committee members will be aware, it would be wrong of me to speculate about individual areas. It remains to be seen what decisions are made by the UK Government, but the Executive and the Scotland Office are clear that the best way to distribute the population coverage and therefore the funding is on a grouped ward basis, which would allow the most targeted approach at a local level. It would also allow more communities in different parts of Scotland to be included rather than only whole local authority areas.

I have received a letter from the member for Ayr, Ian Welsh, about the South Ayrshire position. My response to him will be the same as the response I gave to Mr Canavan and that I give today—that it is wrong to comment on speculation or on what may be leaked documents, but it is important that when the final decisions are made and the map is sent to Brussels, Scotland is reflected as well as is possible and the individual communities of Scotland are treated as fairly as is possible.

However, this is not an exact science; neither are the percentages in the population distribution across Europe. There is a degree of negotiation and compromise in the different countries; otherwise, we would not have got the Highlands and Islands agreement, Britain would not have got the safety net. Nor is it an exact science within the UK because we have to take account of different factors. The population and economic statistics of the mid-1990s are there to use as a benchmark, but we must try to match up the relative importance of issues like fisheries or rural depopulation, industrial decline and the difficulties in the inner cities. What relative weight can we give to those?

We also have to take account of developments—one good example is the situation

in the Scottish Borders, which, if we went by straight statistics from the mid-1990s, would probably not even be on the table for discussion. However, it is obvious to anyone who looks at the current economic circumstances and what is likely to happen over the next six or seven years that it has to be included in discussion. We have to take account of current circumstances as well as statistics that may be four or five years out of date. I would be very happy to come back to the committee and talk in some detail about the final representations made by the UK and the Commission decisions and our role within that, although I cannot comment today on where we are in discussions behind the scenes.

**Cathy Jamieson:** That is helpful in terms of a commitment to looking at the indicators as well as developments. I welcome the opportunity to hear more about the actual map.

I wonder if in the longer term there are any plans to look at integrating the various strands of funding to avoid the sort of confusion that arises at present but also in terms of equity and making sure that everybody gets a fair deal.

**Mr McConnell:** I will mention here our ideas to integrate the strands of funding. There are a lot of initiatives in Scotland, not least the social inclusion partnerships, as well as a number of initiatives from the Executive and the UK Government targeting poverty and social exclusion. As we look at the new plans and the priorities for projects for the next seven years we need to ensure that we maximise their impact. We also need to make sure that we are linking what we are doing in the Scottish Executive to try to tackle the communities in Scotland that are currently suffering most in terms of economic deprivation and social exclusion with what is being done at a local government level, in the voluntary sector and in the UK Government. I am very keen that we do that and in the course of the next few months there is likely to be an opportunity for the committee to be involved in discussions on how we might approach that.

**The Convener:** I will open the discussion up.

16:15

**Allan Wilson:** On that last point, there was a lot of concentration on maps, and rightly so. Correct me if I am wrong, but the point that Mr McConnell just made is probably the most important. Whether individual communities or areas of defined need find themselves included or excluded from either the assisted areas or from the objective 2 map, what is important is how we facilitate access for those communities to the moneys that are available to them. Will the Scottish Executive implement plans to facilitate that process for those

areas of need that we can all identify?

**Mr McConnell:** I would like to stress one or two points, as I understand that the committee is due to finish about now.

**The Convener:** I am going to cut you off in full flow.

**Mr McConnell:** Am I all right?

**The Convener:** Yes, you are okay.

**Mr McConnell:** This programme offers a lot of opportunities over the next seven years. The population coverage decreases in Scotland were always going to happen, as we were benefiting from these funds more than any other part of Europe in the late 1980s, as a result of the efforts of Strathclyde Regional Council and Highland Regional Council. We can benefit again over the next seven years. We can do that best by streamlining the administration, targeting resources, monitoring the projects in order to ensure that those that are more successful in terms of outcomes receive continued funding, and ensuring that the areas that perhaps miss out on being included in the map not only receive transitional funding but are supported by the work of the Scottish Executive. That will ensure the continuation of the good work that they have done over the years to improve their relative economic position.

It is important that we deal with the situation in a flexible way, in order to tackle the problems that arise from time to time in particular areas. We must also use statistics and a scientific approach to criteria, and yet be flexible enough to respond to the problems that need to be tackled in different communities in Scotland. We must do that in a cross-cutting way, to use the jargon of the day, and in using that approach, we must involve other levels of government and other forms of funding. If we do that, the level of population coverage that exists will be sufficient to allow us to benefit from European funding. That overall approach by the Executive and the different arms of the Government in Scotland will be of benefit to local communities, and we can establish an applications process and an intervention process that will produce real benefits for local communities.

**The Convener:** Just before I bring Dennis in, I want to follow through on that point. There is a strand that brings together earlier points made by Dennis Canavan, Allan Wilson and Cathy Jamieson. Mr McConnell answered Cathy Jamieson's point about better integration and targeting resources on areas of greatest need—a point raised by other members. Dennis Canavan asked whether there could be areas that are eligible under assisted area status but that are not eligible under objective 2 status, to which Mr McConnell replied, "Yes".

As for rumour, leaks and speculation, my own area qualifies under assisted area status but, although I hope that this is not the case, it might not qualify under objective 2. Mr McConnell introduced a new dimension early on in his comments. Can he confirm that, while there would be a reduction in coverage under objective 2, with European rules applying to the distribution of funds, he also said—correct me if I am wrong—that under the current budget settlement, there would be no reduction in funding to Scotland? That would, potentially, give this Parliament the opportunity to respond flexibly to the areas of greatest need. If any areas lose out in the way that Dennis was hinting at, the Scottish Executive and, probably more crucially, the Scottish Parliament could influence the distribution of the same budget, but in a different way—one that follows our agenda rather than an agenda established elsewhere. Am I correct on that point?

**Mr McConnell:** I do not like using the phrase "best of both worlds" in relation to devolution, although others have used it in the past. I think that Scotland will get two benefits from the final decisions that are about to be made on European structural funds.

First, despite an overall reduction in population coverage, and, in the longer term, in funding for programme approvals, we will still receive a higher level of population coverage than colleagues in England will. I do not like making those comparisons, but others make them so I respond. We will also receive a far higher level of population coverage than any other country in Europe, with the exception of the four countries that have been identified as those requiring specific assistance: Ireland, Spain, Portugal and Greece.

Scotland comes out well in the European funding settlement and, as a result of the devolution funding settlement, we have the opportunity and the flexibility to use any moneys that are freed up from that process for purposes that we determine. Scotland will not lose out financially from those decisions. We will be able to maintain our high level of activity on European structural funds. We will have some flexibility to use the other moneys that are available. The Parliament and the Executive could decide to target those moneys that are released either in the same areas as those that are covered by the map, or in the areas that have been removed from the map, or in another programme or department altogether. That is a decision for the Executive to recommend to the Parliament.

**The Convener:** To clarify, irrespective of any decisions already made by the Commission or the UK Government, the same amount of money will still be spent in Scotland. In the element that is not European-funded, the Parliament, in discussion



with the Scottish Executive, will be able to establish and determine our own priorities. In other words, there will be no financial loss to Scotland but, for at least part of that expenditure, there will be greater influence for the Parliament in determining how the money is spent.

**Mr McConnell:** Yes, the assigned budget is there, it is published and it will remain as published. The level of expenditure in Scotland will be roughly the same for the next three years because of the commitments that are already in the budget. What the overall picture is in the Scottish budget, where the priorities are, and any resources that are released, will be up to the Executive, and the annual discussions between the Executive and the UK Government.

**Dennis Canavan:** In order for the Scottish Parliament to come to an informed decision about whether the Executive has made the correct recommendation to the UK Government, we need maximum information about what is going on in the Executive. There must be a considerable amount of documentation about all this—for example, internal communications, and communications between the Executive and the UK Government. We cannot seriously expect Whitehall departments to reveal their documentation. They get very concerned when there are leaks or alleged leaks, or when any parliamentary committee—whether of this Parliament or Westminster—tries to find out what is going on in the corridors of power.

The advent of the Scottish Parliament and the Scottish Executive was meant to herald a new era of open democracy and transparency. Could we have access to the relevant documents from Mr McConnell, to see whether he is making an informed decision? Then people will be able to look at the map that eventually comes out and decide whether it was a good or a bad decision and whether it was justified by the evidence before the Executive.

**Mr McConnell:** The answer that I am about to give Mr Canavan will not surprise him, but I would like to justify it. It is not possible to release those documents. Although that may largely be as a result of convention and the need for us to build a relationship of trust between the new Executive, Whitehall departments and UK ministers, we have to recognise that the UK Government, once its proposals for the map are agreed, has to take its proposals to the European Commission. It is important that it goes on behalf of the whole UK, including Scotland, to get the best deal for us all. That case may be damaged by internal positions, statements of pros and cons, or different options that have been debated in advance. I understand the need for that position and I am not able to release the documents.

However, it is important that we find a way of building a strong relationship between the ministerial positions in the new Parliament and the parliamentary committees. First, I repeat my clear, firm assurance that I will, as far as I can, keep the convener informed at all times of developments in this area. Furthermore, I have no difficulty whatever in making the same efforts to keep the Opposition spokespersons on the issues informed. I am happy to do that. There will be limits to what can be discussed at different stages, but I am happy to make my best efforts to build a relationship and to ensure that members have as much knowledge as possible and can, where possible, influence what we are doing.

**Dennis Canavan:** But you have not given us even one document, Mr McConnell. Even at Westminster, when ministers come before the select committees, they bring some documentation for public consumption and for the committee.

**Mr McConnell:** I understood that committee members already had documentation on the subject and that, the week before last, members received a specific briefing from Mr Millard on this topic. It is not reasonable to say that information was restricted before my presentation and this question and answer session.

**Ms MacDonald:** I am just a seeker after knowledge.

**Mr McConnell:** As ever.

**Ms MacDonald:** I want to ask, on behalf of my colleague Winnie Ewing, how much money we are talking about. No one has mentioned any figures, Jack, and you may be able to explain to me the disparity between two figures. Sometimes we read that the total amount of the funds available under the proposed settlement is £300 million, while the next figure that is mentioned is £200 million. I wish that Winnie were here, because she seemed to think that someone, somewhere, had lost the small change.

How long is the long term, Mr McConnell? You said that although we were getting a lot of money—exactly the same amount as we received under the old disbursement of grants—fewer projects would be approved in the longer term. Does that mean in two and a half to three years?

**Mr McConnell:** The reduction in approvals would start immediately because the population reduction starts immediately, but that takes two or three years to feed into the system. Approvals that have already been given will be paid for out of the Scottish budget over the next year, the year after that and the year after that. The amount of money that we spend on European structural fund initiatives in Scotland will remain roughly the same for the next three years. After that, it will be for the

Parliament to decide how money is distributed over and above the level that will be covered by the funding.

**Ms MacDonald:** But it will be reduced?

**Mr McConnell:** The amount of money that goes directly to local projects will be reduced as a result of the population reduction. However, the amount of money available to the Parliament to spend as it sees fit—on this and on the use of additional resources—will not automatically be reduced.

**Ms MacDonald:** I am still seeking knowledge. It is up to us to determine what we spend on individual projects—

**Mr McConnell:** It is up to us to determine how we spend the Scottish budget. Within that budget, there is a sum based on the historical position for European structural funds—that provision remains. The provision is not an identified amount within the overall Scottish budget. For example, if the amount of money that we can allocate on European structural funds in Scotland for the next seven years were to be reduced, in theory, by £10 million a year, that would not mean that £70 million came out of the Scottish budget that we got from the Treasury. The £70 million would still be in the Scottish budget; we would just have more freedom on how we spent it. That is what I mean about our having the best of both worlds.

**The Convener:** Up to now, the debate has focused on the financial loss to Scotland in terms of structural funds, but it would perhaps be helpful for us to have a briefing on the concept that you have introduced, Mr McConnell. What I take from this discussion is that, if Scotland loses European structural funds on one line, the equivalent loss will still be available for spend from the total Scottish block. I think that we need to examine that equation. From what you said, I have understood that, irrespective of any cut in the allocation of European funding, there will be no loss to Scotland in expenditure.

16:30

As significant—if not more significant—to me is your assurance that, within the money that will now be spent through the Scottish Executive rather than directly from European funding, we will be able to participate with you in influencing how the money is allocated. That includes choosing the strategic priorities—on issues, not just on areas on maps—and gives us the potential to examine, with other committees, how to integrate funding with other expenditure. That is worthy of a future discussion, because it gives us the ability to influence a significant source of expenditure—directly or indirectly—in a way that has not been possible before.

**Mr McConnell:** I am happy to make supplementary information available if that is helpful. As I understand it, the role of the committees in relation to the annual budget will depend on whatever liaison arrangements exist between the conveners and the Parliamentary Bureau. I am happy to discuss the future use of funding with the European Committee but I want to be sensitive to the role of the Finance Committee and to the determination of who is discussing what.

**The Convener:** We in no way want to step on to the remit of other committees. However, if we in the European Committee see replacement expenditure for the reduction in European funding starting to come in under another heading, I think, from the discussions today and at previous meetings, that we could request that the Parliament address certain aspects of the gaps between the assisted area status and current objective 2 status maps and integration. That is not our responsibility but we could flag up indicators for other committees. You have given us something new to think about today, Mr McConnell, and that has been very helpful.

**Mr McConnell:** Those options definitely exist, but are clearly going to be subject to discussion and decision within the Executive and, ultimately, to the Parliament's decision-making processes for the annual budget rounds over the next seven years.

**David Mundell:** I want to clarify something that you said, Mr McConnell, in answer to a point that Dennis raised about NUTS funding. Were you saying that NUTS 5 funding would give Scotland more money, whereas NUTS 4 would give less but spread it round more, and that, in your view, NUTS 4 is the favourable route?

**Mr McConnell:** Neither guarantees more coverage. Ultimately, coverage will be based on a comparison with similar areas elsewhere in the UK. The point that I was hoping to make was that the more the geographical scale is broken down, the better the targeting of resources. I would rather have £1.5 million across Scotland, clearly targeted on the areas that need it most, than £2.5 million spread across Scotland with much of the coverage wasted. Neither of the two options exists, so I can give them as an example.

My view and—as I understand it—that of Dr Reid and Mr Wilson is that the coverage should be targeted as much as possible and broken down into groups of wards in as many areas as possible. That is not always straightforward. Three local authority areas in Scotland qualify automatically as a whole under the European Commission criteria; one option that may exist in discussion with the Commission would be to break down the areas of those local authorities. We need to examine that

possibility and do what we can.

Our objective is clear: we want to secure the maximum funding, use the flexibility to best effect and ensure that existing funding is targeted on the communities that need it most. Having got that agreed by October, I want to ensure that the way in which the programmes are administered is as efficient and effective as possible so as to get the maximum benefit for Scotland over the next seven years.

**The Convener:** Thank you very much, minister. Given some of the issues that you raised and that came up in discussion, we would welcome your attendance at a future meeting.

The next meeting is on 14 September at 2 o'clock.

*Meeting closed at 16:35.*



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