

EUROPEAN COMMITTEE

Tuesday 7 March 2000
(*Afternoon*)

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EUROPEAN COMMITTEE

5th Meeting 2000, Session 1

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Cathy Jamieson (Carrick, Cumnock and Doon Valley) (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)
*Ms Margo MacDonald (Lothians) (SNP)
*Maureen Macmillan (Highlands and Islands) (Lab)
*David Mundell (South of Scotland) (Con)
Irene Oldfather (Cunninghame South) (Lab)
*Tavish Scott (Shetland) (LD)
*Ben Wallace (North-East Scotland) (Con)
*Allan Wilson (Cunninghame North) (Lab)

*attended

WITNESSES

Mr Lex Gold (Review Steering Committee)
Mr Colin Imrie (Development Department, Scottish Executive)
Mr Donald MacKinnon (Dumfries and Galloway European Partnership)
Mr Gordon McLaren (East of Scotland European Partnership)
Mr Laurie Russell (Strathclyde European Partnership)
Mr Phil Smith (Development Department, Scottish Executive)

CLERK TEAM LEADER

Stephen Imrie

ASSISTANT CLERK

David Simpson

LOCATION

Committee Room 2

Scottish Parliament

European Committee

Tuesday 7 March 2000

(Afternoon)

[THE CONVENER *opened the meeting at 13:40*]

The Convener (Hugh Henry): Good afternoon. We have a lot of business to get through today. I have received apologies from Irene Oldfather, and Tavish Scott has told me that he will be slightly late.

European Structural Funds

The Convener: The first item for our consideration is a paper on European structural funds and their implementation in Scotland. There has been some discussion about additionality and structural funds, and whether an inquiry should be held. Following our previous meeting, the committee clerk and I met Bruce Crawford, Andrew Wilson and Mike Watson, the convener of the Finance Committee. The Finance Committee thinks that it should examine certain issues, such as the Barnett formula and the assigned budget, but I think that several issues are of legitimate concern to the European Committee. There may well be an overlap, but if there is, it is for others to determine how that should be resolved.

The paper suggests that the committee undertake an inquiry with a broad, but not exhaustive, remit. Members may want to make suggestions about matters that we should consider. As we proceed, other issues might come to mind, and we might decide to refer some matters to the Finance Committee as a result of our deliberations.

The timetable for our inquiry will have to be fairly flexible, because we have begun several pieces of important work and I would not like the structural funds inquiry to drag on indefinitely. If we agree our remit this afternoon, I will discuss an early timetable with the clerk. We must discuss the principle of the inquiry and, if we agree that, decide on the terms of reference.

Ben Wallace (North-East Scotland) (Con): I am in favour of an inquiry. We should seek an undertaking from the respective ministers that they will provide information on certain issues. Part of the investigation will involve Treasury rules, regulations and procedures and those of other departments. As ministers always say, it is hard to get information from the Treasury. However, we

need some support from the Minister for Finance and an assurance that he will try to encourage the provision of such information.

The Convener: If we decide to proceed, we will write to the minister as a matter of courtesy. We would expect him to co-operate; there has been no indication so far that he would do otherwise. We would also seek his assistance in obtaining information from other sources, as appropriate.

Bruce Crawford (Mid Scotland and Fife) (SNP): You have done a good job in reflecting our discussions on the remit of the inquiry. It would be rather strange if I were to decide against the principle of having an inquiry at this stage. I am strongly in support of the inquiry.

The first question in the paper is:

"Are European structural funds additional to the Scottish Assigned Budget?"

However, we must bear in mind the EC regulations on additionality, which state:

"In order to achieve a genuine economic impact, the appropriations of the Funds may not replace public or other equivalent structural expenditure by the Member State".

There is a question about replacement—it would be useful to mention that here.

The Convener: If members accept that suggestion, we will find the appropriate form of words.

Allan Wilson (Cunninghame North) (Lab): Presumably the appropriate form of words would be, "Do the funds, as they are applied, comply with European regulations?"

The Convener: We might ask whether the funds are being applied appropriately in terms of the regulations.

13:45

Bruce Crawford: At UK and sub-state level?

The Convener: We will consider that during the inquiry.

Bruce Crawford: We must also consider how structural funds impact on other budgets within the Scottish assigned budget. The Finance Committee might decide that it would be more appropriate for it to cover that point. I am not sure whether that has been made clear.

The Convener: Can you be clear what you are talking about—I do not want the remit to be loose or open-ended.

Bruce Crawford: I am trying to reflect the material that the Minister for Finance sent us, which explains that the assigned budget moves up and down depending on how much money comes in through structural funds.

The Convener: Are you talking about the way in which the Scottish block is calculated?

Bruce Crawford: No. Once the block has been calculated, it becomes the Scottish assigned budget. Thereafter, according to the evidence from the Minister for Finance, the Scottish assigned block goes up or down depending on the amount of structural funds that come into Scotland. Jack McConnell made that clear in a letter to the committee. I can find that letter.

Ben Wallace: Is your point that, depending on the ceiling that is set, the amount of structural funds coming into Scotland may affect other spending? That is the core question of the investigation.

Allan Wilson: We know that it affects the spend. That seems to be covered in the last two bullet points, which relate to how the structural funds programme became part of the assigned budget and what issues relate to the application of the Barnett formula.

Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab): I was going to make a similar point to Allan's. We have a list that covers the areas that we need to investigate. We are in danger of debating the matter in committee before we take any evidence.

The Convener: Will anything in the paper prevent us from considering your point, Bruce?

Bruce Crawford: I am happy with the suggestions in the paper, provided that the committee accepts that my point is implicit in the one that relates to the Barnett formula.

The Convener: I would have thought so. I will ask the clerk to note your question and you can ask about it when we begin the investigation.

Bruce Crawford: I want also to raise the issue of how the structural funds that are allocated to Scotland compare with the final outturn spend levels. We might make a useful comparison with other UK areas.

The Convener: We might consider the situation in other European regions to discover how Scotland is performing.

Ben Wallace: Bruce Crawford's first comment is covered by the second question in the paper:

"Is there a net impact on overall expenditure levels in Scotland?"

Bruce Crawford: That is a different issue.

The Convener: Yes, it is slightly different.

David Mundell (South of Scotland) (Con): I, too, welcome the inquiry. I am concerned about the perceived—or actual—gap in funding between the end of the current arrangements and the start

of the new funding packages. I want to investigate how that has come about.

The Convener: That is a separate issue, on which we have started to receive representations from concerned organisations throughout Scotland. I would not want that important issue to be subsumed into the inquiry that we are discussing, which has a specific focus.

I have asked Stephen Imrie, the clerk, to prepare an agenda item on the subject that David Mundell mentioned. We should speak to the Scottish Executive, voluntary organisations and so on. That matter would probably best be taken as a separate item.

David Mundell: That would be satisfactory. I, too, have received representations and I think that the matter is of concern.

Dennis Canavan (Falkirk West): I want to express my support for the principle of the inquiry. As members know, I have lodged motions calling for such an inquiry. I thank the convener for taking on board members' representations.

The Convener: As you know, Dennis, we always take seriously any suggestions that you make. You were not the only member to make representations—Bruce Crawford, Ben Wallace and David Mundell all wrote to me on the subject and other members spoke to me about it. It is clearly a matter for which there is cross-party support.

Ms Margo MacDonald (Lothians) (SNP): I am delighted, too.

I was at the Finance Committee this morning. I was there as a guest, which was great.

The Convener: That says a lot for your social calendar.

Ms MacDonald: Quite. Members of the Finance Committee said that it was the lead committee; that is fine, but I would like to clarify each committee's remit.

The Convener: Structural funds are felt to be a major issue for the Finance Committee. Members of this committee have expressed the view consistently that the issue is also of great interest to us. The Parliamentary Bureau will resolve problems such as clashes between the committees' remits, or whether there should be a lead committee.

Ms MacDonald: I think that we would win in a pitched battle, if it came to that. We are much better fighters in this committee.

The Convener: I see that the language of consensus is developing well.

Do we agree to initiate an inquiry?

Members indicated agreement.

The Convener: I welcome Lex Gold, chair of the Scottish Executive's review steering committee. As members know, Lex has been reviewing the structural fund programme management executives and their relationship to the Scottish Executive.

Mr Lex Gold (Review Steering Committee): I will bring the committee up to date on activity since I last appeared before it on 17 January.

We had a meeting of the steering committee on 10 February, at which we agreed the draft of our proposals. The draft was passed for comment to about 40 key partners, who were given only a fortnight to respond to a fairly lengthy document.

We met again on 6 March and considered the 11 responses that we had received, which were generally positive and commented on the detail of the report. At that meeting, we embraced many of the proposed changes to the draft. We were conscious that we had undertaken to get the report to the European Committee by the time of its next meeting and, as members will know, we delivered the report yesterday afternoon. I appreciate that that gave you little time to consider the report fully but I hope that you appreciate the tight time scale to which the steering committee—and the team that was working with us—were working.

I repeat what I said the last time I appeared before the committee: our aim has been to develop a streamlined and transparent process for delivering the new structural fund programmes in a manner that is designed to achieve maximum impact and a lasting and positive legacy.

Our report contains 27 recommendations and makes 10 key points, which are listed on the front page.

When I last appeared before the committee, concern was expressed about whether the PME approach was the right one. After a fair amount of consideration of alternative models, we concluded that that approach has worked well for Scotland and we recommended that it be maintained. We also considered the number of PMEs and, although there was no absolute number, we concluded—not bravely but sensibly—that there should be five because of the relationships that have been built up in the programme areas. We believed that it would be risky to move away from that broad-based approach.

Table 1 sets out in detail a division of the roles and responsibilities of the new programmes for the partners, the PMEs and the Scottish Executive. Throughout the report, we emphasise strategic appraisal and development.

Paragraph 18 says that we believe that there

should be an annual review of the implementation of structural funds, and a structural funds forum, which might be chaired by the Minister for Finance. That could feed into the annual review process that the European Committee wants. We have taken into account the points that have been made to us and offer that suggestion as a possible way forward, not as a definitive proposal.

We have stressed the need for improved communication between the PMEs, the Scottish Executive and partners in the areas of: training and development; information-technology systems, which are core; development of core guidance; dissemination of good practice; provision of labour-market intelligence; and research monitoring and evaluation. We believe that that would deliver a much more streamlined system for structural funds administration, and, taken together with our proposals on efficiency and effectiveness, ought to provide the security and energy that the system needs.

The Convener: Thank you, Lex. That was a concise overview of a detailed report. The work, which—as you said—has been undertaken in a short time, is commendable.

I throw the floor open to members.

14:00

Dr Sylvia Jackson (Stirling) (Lab): I am sorry to say that I am working from the draft report; from what I read of the Convention of Scottish Local Authorities paper, however, changes may well have been made to the final report. Lex will put me right if necessary.

I have four questions. In the draft report—and in the main document—you talk about projects being “embedded in area-based strategies.”

First, will you say a bit more about those area-based strategies? In the larger document, they were referred to in relation to the monitoring committees. It struck me that the strategy was developing over time and that the monitoring committee had a role in that.

Secondly, I am still a little unsure about the composition of the monitoring committee. What will be its relationship with the programme management executive? Perhaps that is explained more fully in the final report.

Thirdly, will you say a little more about the single business planning process and how it will extend to the whole system, make it easier to monitor and so on?

Lastly, will you say something about the criteria that will be used to determine economic value? I assume that the criteria will be something like increasing jobs, wealth creation and so on, but are

there any other ideas?

Mr Gold: I will start with the last question. Broadly, the approach that you mentioned is what we considered. We did not work on the detail of it, but we set out the goal. The criteria that you mention would certainly figure in that. The social impact would also need to be considered.

Paragraph 29 of the full report sets out the approach that we envisage will be adopted for business planning.

I am not sure how I should play this—should I go into detail or refer members to the relevant parts of the report? I said to the convener before the meeting that once members had had an opportunity to read the report in full—and before they meet the minister on 21 March—I would be happy to come back for a more detailed discussion with individual members or with the convener.

The Convener: If issues can be resolved today, we should resolve them. That will help us to prepare for the meeting with the minister.

Mr Gold: It is important that the business planning process should reflect the seven-year nature of the programmes. A significant amount of work will be involved in setting up the process and ensuring that the new systems work effectively. Most of that work will be done this year and next year. Once the system is properly in place, the key tasks of strategic review, effective project development and appraisal, and efficient programme management and monitoring can be carried out effectively. As part of that, we believe that there should be a regular opportunity to review the resources required through technical assistance and through matched funding for the partners.

The Convener: Is there anything else, Sylvia?

Dr Jackson: That is fine. I will go through the document and read a bit more about that.

My other questions were about the area-based strategies and—

Lex Gold: Yes. Your second question was about the role of the monitoring committee. We sought the Minister for Finance's guidance on that, because we did not regard it as our role to define the role of the monitoring committee. We discussed that the last time I appeared before the committee. Our approach was to build our proposals into the strategic model laid down by the minister, who will appear before the committee on 21 March to discuss the role of the monitoring committee. That will be an opportunity for members to raise the matter with him.

What was the question on the area-based strategies?

Dr Jackson: One section of the report seemed to suggest that the strategies were evolving, that the monitoring committees would feed back and that the programme was developing. I want to know a little more about what is meant by an area-based strategy and about how it will develop.

Mr Gold: It is about considering the wider context rather than specific projects. That means not just area, but the national strategic aim to get lasting impact. The link is between area and national strategies.

Ms MacDonald: What is the area? Is it the local enterprise company area?

Mr Gold: In this case, it is the area covered by the programme management executive.

Dr Jackson: What will that be?

Mr Gold: At the moment, there are five areas. One for the Highlands and Islands—

Dr Jackson: I see.

Mr Gold: We will replicate what we have now.

Dr Jackson: That is fine.

Dr Winnie Ewing (Highlands and Islands) (SNP): I am interested in the single business planning process. Are the PMEs happy with that? Did you have any difficulty getting them all to agree, or was it all sweetness and light?

Mr Gold: Curiously, I encountered a great deal of co-operation and good will, as was the case during the whole review. It should be a paradigm for how things work in Scotland. There was no objection to the process—indeed, it would be fair to say that the approach was broadly welcomed.

Bruce Crawford: Like Sylvia Jackson, I have read only the draft report. The full document—with the blue cover—was on my seat when I arrived this morning and I have not had a chance to pore through it. Forgive me if some changes to the draft have been included in the blue book. Will you reflect on one of the comments that we received, which was that the fact that the role of the Scottish Executive is still relatively undefined in the report is a weakness?

Secondly, I think that everyone accepts that we have a good template—a reasonable process that appears to work for Scotland. However, if the process is working, why was there not capacity to examine the new Community initiatives in urban areas—equal opportunities, INTERREG and LEADER—particularly in view of the difficulties that are being experienced in some areas? Is it right, for example, that the north-east of Scotland and Aberdeenshire are beginning to face difficulties under the INTERREG regulations in finding matched funding, which is different to additionality money? If those initiatives had fallen

within the remit of the PMEs, could ways have been found to secure the necessary resources from outwith the local authorities?

Mr Gold: I will take those questions in reverse order. The last one concerns an issue that the steering committee did not consider, so although it is an interesting point, I cannot offer any comment from the perspective of the steering committee.

The Convener: What specifically did you not consider? Funding?

Mr Gold: No. We did not consider whether certain initiatives could be brought within the ambit of the PMEs. That was Bruce's point, as I understood it.

The Convener: Can we tease that out? Why was that either not part of the remit or not considered, given the significance of the role that those programmes play?

Mr Gold: I am not sure that I have an answer to that. All I can say is that the issue did not figure. Perhaps that was an oversight on our part, but it did not form part of our review.

The Convener: Perhaps we should raise that with the minister at a later date.

Mr Gold: Bruce's first point was on the role of the Scottish Executive. We went over table 1 in considerable detail. We wanted to spell out the roles and responsibilities as we saw them. A balance had to be struck between the Scottish Executive taking a leadership role and that role not being seen as the Executive riding roughshod over the system. In a sense, what we have is a top-down, bottom-up approach. Table 1 tries to strike that balance.

Maureen Macmillan (Highlands and Islands) (Lab): I was glad to hear your reply to Sylvia Jackson about the strategic overview being spelled out—that is extremely important.

I want to discuss what is shown on page 28 of the document, about effectiveness and efficiency and the application processes. I have been told that those processes need to be simplified, that the forms are getting more and more complicated, and that there are many inappropriate applications. That means that time is wasted on applications that would fail. There needs to be a way of sifting out inappropriate applications. At the moment, too many people are checking applications, and not enough people are on the ground, talking to people about how to develop schemes. I hope that that will be taken on board.

Mr Gold: Yes. There is a detailed commentary on that, from paragraph 21 onwards.

Maureen Macmillan: I had not got that far.

Mr Gold: It covers just those points and gives a

strategic focus to them.

Maureen Macmillan: Thank you—super.

Allan Wilson: Does not that paragraph refer to area-based strategies, with specific reference to social inclusion partnerships? They would be different from the areas operated through project management.

Mr Gold: That is correct—they could be different.

Allan Wilson: Therefore, it would be possible to have a successful project embedded in a social inclusion partnership.

Mr Gold: Yes.

David Mundell: I was pleased to see that you have concluded that a South of Scotland management executive is worth while, and that the slight difference in management cost will be addressed.

First, could you set out how you came to that conclusion? Secondly, on a wider issue, are you satisfied that the objective 2/objective 3 interface across Scotland has been resolved and will proceed effectively?

Mr Gold: To start with your latter point first, the tense is wrong. We made recommendations on how the interface might be tackled. We believe that that is important, and we have set out how it might be dealt with. There is potential tension, but we have addressed that in the report.

On your point about the South of Scotland, I am not sure whether you are asking how we came to the conclusion about the area being a PME, or how we arrived at the funding structure. If you are asking about the latter, representatives from the South of Scotland made it clear that, by operating skilfully on matters such as secondments, they could manage the process. If I were to answer the former, it formed part of our broader strategic thinking.

Ben Wallace: There is reference in the report to funding through the technical assistance top-slice. What would happen if the projected top-slice was not spent? How would you redistribute the money, given that money has to be spent on projects through PME within a two-year time limit? If you top-slice technical assistance, and use that as a working budget for running your administration, what will you do with the money left over from that?

Mr Gold: I am not sure that I understand the question.

Ben Wallace: You are using technical assistance funding of 1.25 per cent maintenance or top-slice to run your administration. Is that correct?

Mr Gold: Yes—but I think that the average at the moment is below 1 per cent across Scotland.

Ben Wallace: Because of the way in which the structural funds are pre-allocated, in a forecast, you will obviously have to budget for your administration costs at the beginning, will you not?

Mr Gold: Are you referring to PME's?

Ben Wallace: Am I not correct in saying that the PME's are funded by the top-slice?

Mr Gold: By the technical assistance approach, yes.

Ben Wallace: But that comes out of the total structural fund allocation: is that right?

Mr Gold: Yes.

Ben Wallace: The 1.25 per cent comes out of European structural fund blocks, or grants—the technical assistance.

Mr Gold: Yes.

The Convener: What is it that you are trying to get to, Ben?

Ben Wallace: If the 1.25 per cent, which is effectively the working budget for the administration to run on, is not spent, or is, as you say, running at under 1 per cent, does the unspent money go back in?

14:15

Mr Gold: It would not be there in the first place if the calculations were right.

The Convener: The answer would be that that money should still be available.

Mr Gold: We did not pursue that matter as a technical point as part of our review.

Dennis Canavan: You point out near the start of your report that very few countries or regions in the European Union decided to follow the Scottish model. Is there a historical reason for that? Is there a continuing reason? Do you think that other countries and regions can learn from us now, or can we learn from them? Would it be fair to say that you are recommending a more decentralised approach, more in keeping with the principle of subsidiarity?

Mr Gold: I am happy to give a very simple answer to that: yes. Such an approach is much more in line with the subsidiarity principle that is much preached in Europe, and it is being put into effect here. I am less well able to say why other countries are not adopting it.

The Convener: I think that that reflects the comments which we heard previously from the officials from the Commission, about Scotland and the operation here being held in high regard. We

can build on that strength.

Mr Gold: I think that Graham Meadows made that point when he appeared before the committee.

The Convener: Does anyone have anything to add? If not, I would like to thank Lex Gold. His contribution has been useful in our preparation for any comments and questions that we may wish to address to the Minister for Finance. I think that Bruce Crawford has already identified one that we can pursue with him.

David Mundell: Do we want to take up Lex's offer? If so, will we do that through the clerk or directly to Lex?

The Convener: Which?

David Mundell: His offer to go over any of the individual details in the final report.

The Convener: If members have specific questions, it might be easier for Lex if members went to Stephen Imrie so that the questions are sent together. Failing that, I would not want there to be a delay, and members could address points to Lex directly. However, I ask members to send queries via Stephen in the first instance.

I would like to thank you, Lex, for the work that you have put in, and for taking the time to come here this afternoon. I hope that, at some point in the future, we might be able to see you back here in one of your other roles.

Mr Gold: As chairman of the Scottish Premier League?

The Convener: No, not the SPL. We have enough problems without delving into the lack of European success there. That is slightly beyond our remit. I was thinking about your capacity as director of the Scottish Chambers of Commerce. I know that the chambers of commerce have been lobbying and presenting information to the Enterprise and Lifelong Learning Committee, and that they are making a valuable contribution.

At some point, we might like to reflect on the comments of some of your members on the European agenda—so we hope to see you back again.

Mr Gold: I thank committee members for their courtesy in hearing me. I would also like to draw the European Committee's attention to the work done by the steering committee in very short order, and to the team that supported it. Producing a document of this kind has been one of the most enjoyable, if fraught, experiences that I have had. I hope that it helps all the running programmes, to the lasting benefit of the Scottish people.

The Convener: Thank you very much.

Objective 2 Draft Plans

The Convener: The next item on our agenda is objective 2 draft plans. The issue of structural funds seems to be never-ending. Now we need to focus on objective 2 expenditure, which is aimed largely at supporting industrial areas that are in decline as well as certain areas of rural Scotland.

We have three regional plans—for the east, the west and the south of Scotland—which are huge documents. Some members have already commented on the lack of opportunity for them to absorb the detail of the plans. This afternoon, a useful overview can be presented to us by Colin Imrie and Phil Smith of the development department of the Scottish Executive, Laurie Russell from Strathclyde, Gordon McLaren from East of Scotland and Donald MacKinnon from Dumfries and Galloway. The purpose of the overview is to help us in our preparations for discussions with the minister. Today is the first stage in the discussion, rather than the last stage.

David Mundell: What sort of time scale are we talking about? Are we meeting the minister on 21 March?

The Convener: We will meet the minister in a fortnight.

David Mundell: To discuss these plans?

The Convener: Yes.

As soon as we get the machinery working, we will be ready to roll. I understand that Colin will lead off, after which we will be given a short presentation by the representatives of each of the regions.

Mr Colin Imrie (Development Department, Scottish Executive): That is right. Thank you very much, convener. I shall explain why there are five of us here and what we plan to do in the course of the discussion.

I am head of the structural funds division of the Scottish Executive. Phil Smith and I have been the conveners of the plan teams—I have been the convener of the west plan team for the past few months and Phil has been the convener of the south and east plan teams for some time. We are accompanied by representatives of each of the plan teams, whom you know from previous incarnations. Gordon McLaren is from the east plan team, Laurie Russell is from the west plan team and Donald MacKinnon is from the south plan team. As well as being the programme management directors, they are acting as the secretariat of the plan teams. They are here for that reason and to represent the collaborative efforts of the plan teams.

I thank you all for your forbearance in dealing with the large amount of paper that we circulated to you for this first attempt—I think that that is the best way in which to put it—at getting to grips with quite a complicated exercise. I am glad to see that we gave you only one telephone book's worth of paper rather than three telephone books' worth, which would have been possible in the world of European planning. At the beginning of the document, we try to point a way through each of the various sections. In this presentation, we will try our best to explain why the documents look as they do and what their main points are. As Lex Gold suggested, we would be pleased to answer further questions or to meet informally—and perhaps individually—to consider each plan if that would help you subsequently.

In our presentation, we would like to go through some of the main points. I shall start by explaining why we have carried out the work in the way that we have and what the basic ground rules are for each of the programmes. Each of the programme directors will then talk about their individual areas. I draw to the committee's attention the fact that this discussion is on objective 2 funding; I know that you have already considered the objective 1 transitional programme for the Highlands and Islands and the objective 3 plan for lowlands Scotland.

Objective 1 funding supports areas that are falling behind, in gross domestic product per head, but objective 2 is different. What are the aims of objective 2? Under the terms of the most recent regulation, the aims of objective 2 are to support the economic and social conversion of areas that face structural difficulties. Those difficulties are defined according to four categories. The first category is industrial decline, which could be a collapse in the coal or steel industry or in other industrial sectors. The second category is rural decline, which used to be covered by objective 5b but which has now been integrated into objective 2. The third category is urban deprivation—another key strand—and the fourth category covers depressed areas that are dependent on fisheries. The East of Scotland plan covers one area that is among the areas that are most dependent on fisheries in Europe. The fourth category used to be covered by the PESCA Community initiative, but it has now been integrated into objective 2 funding.

Under objective 2, the main fund of intervention is the European regional development fund. The main task of the ERDF is to promote economic and social cohesion by correcting the main regional imbalances and participating in the development and conversion of regions. It is very much focused on the aims of objective 2. It also contributes to the promotion of sustainable development and the creation of sustainable jobs.

It can support productive investment and some investment in infrastructure, although in practice objective 2 is not a major provider of investment in infrastructure. It has tended to focus more on the development of small and medium enterprises, on the development of business premises and on some other fields such as tourism—as long as the tourism project provides sustainable jobs—environmental protection and equal opportunities. Objective 2 also places quite a strong emphasis on the development of technology, under the European regional development fund, and there is emphasis on innovation in technology.

The European social fund is also a potential source of funding within objective 2. However, it is only a possible source; it is not essential to include European social fund support in the objective 2 programme, as the objective 3 programme is the main vehicle for providing support through that fund to areas that are not covered by objective 1. By definition, that includes objective 2 areas. However, if those who draw up the plan so decide, European social fund provision can be included in objective 2 funding as long as it is co-ordinated with the objective 3 plan and amounts to a significant sum. If European social fund provision is included, the amount of European regional development fund provision must be reduced, as a ceiling for the amount of money that can be made available is set in respect of the population in the designated objective 2 area.

I move on to the map that you discussed last year. The blue areas are the Highlands and Islands, which are covered by the transitional objective 1 funding. The dark red areas are ascribed full eligibility, whereas the light pink areas are ascribed transitional eligibility. The white areas—most of Edinburgh, the whole of Aberdeen and the lowland rural areas in the east of Scotland—are not eligible for either full or transitional objective 2 funding.

14:30

The West of Scotland programme area is the former Strathclyde region, except for the North Ayrshire islands of Arran and Cumbrae. North Lanarkshire, West Dunbartonshire, much of Glasgow and most of Ayrshire have full eligibility, while other areas have transitional eligibility.

The South of Scotland programme is the main rural programme under objective 2, and it consists of the Dumfries and Galloway and the Borders council areas. The areas have been brought together, having been two objective 5b programmes under the old round. Apart from the Tweeddale district around Peebles, which has transitional eligibility, the area has full eligibility.

The largest programme area—which could be

argued to be the most complex—is the East of Scotland, which runs all the way from the Lothians up to Moray and the Aberdeenshire coast. It includes full eligibility in Midlothian, parts of Falkirk, parts of West Lothian and areas that are adjacent to North Lanarkshire. It includes areas of full eligibility in Clackmannan, Fife, Dundee and Angus, and the area of fisheries dependency on the north-east coast. It is essentially a coastal strip, although it slips down a little bit to include Keith. Those areas were designated on fisheries grounds. It includes transitional areas in the rest of the old 5b area in north-west Grampian and the old 5b area of rural Stirling and upland Tayside.

We have three different programme areas, which contain a mix of full and transitional areas. In the east, there is the added complication of white areas that are not eligible for European regional development fund support under objective 2.

The plan teams have been working since the first half of last year. I was not around at the time that they started, but I came into the process in August, just as the map was being put together.

Phil Smith, my colleague Jim Millard, who has moved on to work on the Highlands and Islands and community initiatives, and I have been working as conveners of the plan teams. The secretariat of the plan teams has been provided by the programme management executives. I should stress that in the case of the south, the Dumfries and Galloway programme management executive agreed to provide the secretariat on behalf of the whole area.

The plan teams, each of which contains 20 to 25 people, have been put together to represent the partnerships in each of the areas. They bring together people representing the local authorities, the enterprise networks, the voluntary sector, further and higher education, and rural and environmental interests.

The Scottish co-ordination team, which is a body of officials at the national, Scottish level, has met on a monthly basis to compare the progress in each of the plan teams and to try to come up with some common issues that can be fed back into the plan teams in each area, so that they can take them into account. It is a regionally based approach, where each plan team has been driving its own process. However, the Scottish Executive has been involved, in order to provide our input. We have been seeking to co-ordinate, through the Scottish co-ordination team.

The documentation that you have is called single programming documents, which is the formulation in the regulation. In other words, we are seeking to cover all the aspects of the programme—the funding aspects, the objectives,

the measures and so on—in one single programming document.

There is no set format for that document, but it must contain certain key elements. For example, it must contain a socio-economic analysis of the area, a review of past programmes and a strengths, weaknesses, opportunities and threats analysis, all of which have to be consistent with each other. The socio-economic analysis has to take into account what the past programmes have done in the area and those programmes have to be analysed.

The document has to cover the horizontal themes, which in this context are sustainable development and equal opportunities. We might add innovation to that, because it has been picked up as a horizontal theme, especially in the West of Scotland programme.

After those issues have been covered, the strategy—that is, a basis strategic approach, based upon the analysis, the past programmes review and the SWOT analysis—must be set out. Priorities—the key areas into which funding is to be put, in general terms—must then be set out. The priorities are broken down into measures. Under each measure, the plan team sets out what it specifically plans to do in each area and the funding that it plans to attach to it. Indicators need to be set out, against which progress—with regard to the strategic objectives set out for each priority and, within that, for each measure—is measured. Those issues must be included in the plan.

A financing plan, on how and in what time scale the plan team plans to spend the money available, must also be set out. It has to set out implementation provisions.

All those issues are covered in the documentation before the committee, which is as comprehensive as possible. There is nothing of any great substance missing. I see members nodding—it is perhaps too comprehensive.

What we have tried to do with the consultation process is to make all the basic information available, so that you can look at not simply what the plans seek to do, but how much money will be spent on each aspect. Basic details need to be filled out, but we have tried to cover all the ground.

The last point to mention is the ex-ante analysis. While the plan teams have been meeting, consultants, appointed as part of the process, have been sitting alongside—although they are not part of the exercise—and have been commenting on the way in which we have been doing the work, to ensure that we are covering all the aspects of the regulation. For example, they have been ensuring that we are being as effective as we need to be in involving the partnership in the exercise and that we are seeking to consult as

effectively as possible. Each of the plan teams will say something about what they have done in that area.

A priority for the Scottish Executive has been to ensure consistency with policy priorities. That is also an important issue for the European Commission and for the UK Government. At the European level, the Commission wants consistency with guidelines that it has set down for the implementation of structural funds. It also wants consistency with Community policies; for example, with the Community's state aid policies. However, I could add to that the Community's environmental policies. We have to achieve a basic level of consistency with European policy in those programmes.

Secondly, we have to seek consistency with agreed UK policies. The national employment action plan that I mentioned is very relevant to objective 3, but it is also relevant to objective 2, particularly if European social fund elements are included within it, which is what each of the proposals does.

Over the past few months, it has been important for us to build in consistency between what is planned at regional level and the developing priorities of the Scottish Executive. That is an area on which we have put particular emphasis, as has the Minister for Finance.

There are four relevant areas: first, priorities in economic development; secondly, social justice, particularly given the emphasis that has been put on it in the past few months; thirdly, sustainable development; and fourthly, equal opportunities. We are particularly pleased at the way in which the proposals are coming out. To a great extent, they mirror the policy objectives of the Scottish Executive: they identify, as the key elements of the programme, priorities in economic development and social justice, while at the same time sustainable development and equal opportunities will be pursued throughout.

A last point, which is important for regional partnerships—and for us—is consistency with partners' regional and local strategies. To a large extent, there has been a bottom-up approach, because work has been done in the plan areas by the experts, so the regional and local strategies have been built in. I stress that we are not trying to reinvent the wheel. We are ensuring that our programmes are consistent and derived from the strategies in local areas—whether they be economic development strategies or social inclusion partnerships, which were mentioned earlier and are also important to the exercise. We seek to achieve consistent policy priorities at different levels.

Consistency with partners' regional and local

strategies is essential, because it is up to the regional and local partners on the ground to propose the projects and the matched funding for the projects. Without full commitment at that level, it will not be possible to implement the programmes as effectively as we would like to.

That is the general background. I will now hand over to the programme directors.

Mr Gordon McLaren (East of Scotland European Partnership): I will quickly go through my slides.

The first two slides derive from the socio-economic analysis, which was done for the plan area, the environmental description and—following on from that—the SWOT. They show some of the key opportunities that I have extracted from the single programming document, which was sent to you. We will focus on a number of key issues, which demonstrate the increasing move towards strategic focus in what we are trying to do, acknowledging that funding is reducing substantially across the programme area. We seek to build into the strategy, development priorities and measures a more integrated and strategic approach to support small and medium-sized enterprises, with emphasis on improving competitiveness in the SME base in the plan area and securing added value from our interventions. We want to improve the overall quality of provision and support for SMEs in the plan area. We think that that is a significant move forward.

We also want to continue to promote sound environmental management to reduce costs and to increase business efficiency within the SME base, and more generally within organisations in the public sector, which are also supported.

We want to improve the commercialisation of the outstanding science and technology base within the plan area. There are nine universities within the plan area and seven international research institutes, so the science base is strong. We want more commercialisation and transfer of knowledge and technology into the SME base.

We will continue to target tourism as a key sector within the programme area. We will consider the quality of the business experience, learn the lessons of the past and examine the recent Government publication on the tourism industry. We must recognise and promote the outstanding quality of the natural heritage of the plan area.

The plan area is diverse; it includes the industrial, urban conurbation of the east central belt and a large rural tract of land. We want to recognise and target rural development. We will promote sustainable approaches to rural development, based on experience from the former 5b programmes.

We want to build on past success—in an urban and rural context—in targeting resources on an area-based strategy. I use the term mini-programmes because we started to develop that approach in the previous programming period—in Craigmillar, for example. We intend to replicate that where appropriate. We also recognise that there are communities of interest, especially in the rural context.

We will continue the work on raising interest among the private sector in supporting investment, especially in the context of risk capital, which is the key to development of SMEs and to the achievement of ambitious targets that have been set for the formation of new firms. In the plan document, those opportunities flow through to the strategic aim that we have developed in the draft document, which is to promote sustainable economic development in the East of Scotland, founded on the key principles of enterprise, learning and social justice. That is broad based but it flows through to a number of strategic objectives, which will help to deliver the strategic aim.

The objectives are to build regional and community capacity to leave a durable legacy. That recognises that, in the next generation of single programming documents, we are unlikely under objective 2 to have the same level of structural fund resources in a regional programme and so must leave something that has a lasting impact on the programme area.

14:45

We want to assist in the development of a more competitive, dynamic and innovative business base. That ties in with the Government agenda and the EU policy orientation. We want to embed an inclusive and collaborative approach to development, build on past experience and get partnership to work at different levels to rationalise and create a more strategic approach to the delivery of economic development. We will work towards equality of opportunity across all excluded groups and we want to continue to improve environmental performance across organisations in the public and private sectors. We want to meet the challenges that we face in the programme area through fostering entrepreneurship and lifelong learning, which are inextricably linked.

From those building blocks, we developed the priorities and measures. The priorities are strategic economic development and community economic development—both have a strong strategic focus. The measures include support for SMEs, access to risk capital, technology knowledge transfer and focus on strategic locations and sectors. Those measures recognise the key development areas on which we should

focus support and key strategic sectors such as biotechnology, tourism and the creative industries.

We have also decided to incorporate a dedicated European social fund measure under objective 2, to provide support for higher-level skills and for SME owners and managers, and to examine aspects that will impact on the economy, especially for employees. That in no way duplicates, but rather complements, the objective 3 programme.

On community economic development, we recognise that we must build on the lessons of the past that the key to community economic development is effective engagement of the community. The community should have an active role and, to an extent, should manage and lead the development process. That is backed up by CED implementation in both a rural and urban context.

On the financial plan, I apologise for the fact that some of the figures on the photocopies that members have are faint.

The Convener: Non-existent is the term.

Mr McLaren: My copy has the figures, so I will go over them quickly. We are assuming—we do not have definitive figures yet—an overall allocation for the seven-year period of €215 million. That converts to roughly £137 million. Of that, we expect to allocate €154 million to the European regional development fund and €12 million to the European social fund. In terms of percentages, 78 per cent will go on strategic economic development and just less than 20 per cent will go on community economic development. Those are merely broad proposals—at this stage, the plan is indicative. We are expecting responses to that split from partners and others. The split is based on historical spend commitments from the former objective 5b programmes and the objective 2 programme.

On strategic economic development, the two big spending measures are support for SMEs and support for development in strategic locations and sectors. On community economic development, the measure of engagement is, largely, how far people are helped to come together to facilitate the process of developing a clear idea of what they want to do in their communities. Implementation is measured on an area-targeted basis and on a thematic basis.

Mr Donald MacKinnon (Dumfries and Galloway European Partnership): I will take a broad look at the South of Scotland. One of the defining characteristics of the area is its rural nature. That might seem self-evident, but in the West of Scotland 2.3 million people live in 6,700 sq km, whereas in the South of Scotland just over 250,000 people live in 11,000 sq km. In the 180

miles across the South of Scotland from Eyemouth to Portpatrick, there are 24,000 recorded archaeological sites, 1,600 scheduled ancient monuments, almost 200 sites of special scientific interest and numerous other sites that have various national and international designations.

There is a crucial relationship between towns, villages and the countryside—a relationship to which I will refer to emphasise the point that more than 70 per cent of people in the South of Scotland live outwith communities of 10,000 or more people. The vast majority of people live in villages and market towns.

Key transport routes run through the area—the A1, the A74/M74 and the A75. Despite that, many people there feel that they live in a peripheral area and that they are outwith the main stream. That point is emphasised most clearly by people's feelings about the main Edinburgh to London rail line, which passes through the South of Scotland, but does not stop there.

The economy is severely dependent on certain sectors, some of which are in long-term decline. Farm businesses comprise 37 per cent of businesses in the South of Scotland. The fact that communities are heavily dependent on certain sectors has caused difficulties—especially, for example, the dependence of the Scottish Borders on the textiles industry. Dumfries depends on rubber and plastics and Annan on engineering. Fluctuation in a sector has major effects on specific communities.

The economy of the area is dominated by micro-businesses—92 per cent of businesses employ fewer than 10 people. In the entire area, only 130 businesses employ more than 50 people. Partly as a consequence of that—or perhaps this is a chicken-and-egg situation—investment is relatively low and there is a low-wage economy. Household income is low compared to Scottish and UK averages.

In contrast, there is high attainment in schools—56 per cent of school leavers go on to higher or further education. That compares with the Scottish average of less than 50 per cent. Partly because of that, there is high migration from the area. One of the saddest statistics on the South of Scotland is that it has the lowest percentage of population aged between 15 and 29 of any area of the UK.

There is, however, splendid countryside and an accompanying quality of life. The place is very attractive and many of those who leave it to go and study and make careers elsewhere return later in life. Those who retire to the area contribute significantly—through volunteering and so on—to the strong community spirit that is part of the character of the area. Despite that, there are pockets of persistent high unemployment and high

levels of deprivation. The rural areas contain not only pockets of deprivation, but individuals within comparatively affluent areas who feel, and are, excluded.

We must address all those issues, and we have highlighted four key opportunities. I mentioned the fact that the population structure of the South of Scotland is skewed towards the elderly. That proportion is projected to increase and will result in growing demand for services and, therefore, a potentially significant increase in the number of people employed in the service economy.

The recent establishment of higher education in the area with the University of Glasgow's Crichton campus in Dumfries and Heriot-Watt University in Galashiels is a source of optimism for all in the South of Scotland, especially if the next key opportunity can be realised. The attractiveness of the area is what draws those who have had successful careers elsewhere; we want to link that attractiveness to developments in e-commerce. If businesses that are geographically mobile can move to the area and enjoy the quality of life there, they will—I hope—generate better-paid jobs than exist in the present low-wage economy.

The other opportunity is the potential for the development of specific niche markets. The recently launched tourism strategy is an example of that. There will be an increase in short breaks, activity holidays and so on. The opportunity is, however, far broader than that—the sophistication of all consumers is increasing and the demand for natural products and, for example, activity holidays augurs well for the South of Scotland, but much depends on that key link with e-commerce being used to market the area globally.

We have adopted two priorities in common with the East of Scotland European Partnership. The first of those is to develop competitive and sustainable businesses, which will use €21 million of the total €70 million allocation. We have, given their importance, allocated €12 million to tourism, the environment and culture. The spending will be focused on SMEs that have growth and employment potential in those sectors.

I refer to what Colin Imrie said at the start—the crucial point is that money is being used to assist local agencies to deliver their strategies, which are consistent with both the European strategy and the Scottish Executive's strategy.

Because of constraints on SME development, we have allocated €12 million to developing the South of Scotland as a competitive location. We have also earmarked €3 million for addressing skills needs associated with business competitiveness, for the same reasons as have been cited for the East of Scotland. Reference has already been made to the interaction between

objective 2 and objective 3, which will be critical, but at the moment we see this as an ESF measure.

15:00

Our second priority is people and communities. We have allocated almost 30 per cent of the programme to that, recognising the social exclusion issues across the South of Scotland, some of which have a geographical basis and some of which apply across the whole area. We see the first measure, developing community support structures, as supporting capacity building across the South of Scotland, and the second measure, community regeneration, as helping communities that have clarified what they want to achieve. Provided that that is consistent with local area strategies, the Scottish Executive's agenda and the European agenda, finance will be available to assist them. Accompanying that we have an ESF measure costing €2 million.

Mr Laurie Russell (Strathclyde European Partnership): In the West of Scotland we have repeated the same process, so I will not go over it in detail. This is the second consultation stage. We issued a document in November-December and held about 50 consultation meetings around the West of Scotland, at which we talked to about 700 people. The document has developed in an iterative way over the past year or so, taking on board the comments of a range of agencies at the end of last year. This draft is out for consultation over the next few weeks. It might be helpful if, either through this committee or separately, we had discussions with those members who are particularly interested in the areas that we cover.

We have considered the problems of the region and the way in which we have spent European structural funds in the past. This time round we are aiming for a more balanced programme. A few years ago, there was a huge infrastructure project—the St James interchange—in the convener's constituency, but we are now giving more support to organisations such as the Paisley Partnership and to social inclusion.

The background to all the plans is the changing economy. My colleagues have mentioned technological advancement and the scope for growth in the knowledge economy. However, there is an increasing emphasis on economic and social inclusion in the plans this time round, partly to reflect the Scottish Executive's policy, but partly to reflect the fact that there is still high and persistent unemployment in parts of both urban and rural Scotland.

Like the other two programmes, we have adopted two priorities. One focuses on the business base—we have called it competitiveness

and innovation. The other focuses on economic and social cohesion in particular communities—in other words, a much closer link with the social inclusion partnerships.

The financial allocation will be broadly in the ratio of 2:1 between business and job creation on the one hand and social inclusion on the other. Overall, the sums of money are reduced, but we want to put more emphasis on social inclusion activities, job-creation activities and projects that can support innovation, equal opportunities and sustainable development. That means that we must put less emphasis on certain kinds of projects—national targets with nationally funded budgets, and some kinds of capital projects, particularly new tourism facilities and some environmental works, such as town-centre improvements.

My final slide is a bar chart. The light-coloured bars indicate where spending went in the past, whereas the darker-coloured bars show where it will go in the future. There are no names against the figures that appear in the chart, but the largest decline is in capital investment. Members will see that we are keeping up spending on social and economic cohesion and reducing capital support for businesses.

The Convener: Thank you. Laurie Russell's suggestion that members should approach him if they want to tease out specific points ahead of our discussion with the Minister for Finance is welcome. I know that the other programme directors have made a similar offer.

Bruce Crawford: I want to highlight what I perceive as the slightly different approach that the East of Scotland is taking from that of the West and South of Scotland. If I am wrong about that, I am sure that you will tell me.

On page 20 of the report, under the heading "Broader Measures of Exclusion", you say:

"The concentrated nature of social and economic exclusion in the East of Scotland is recognised by the existence of initiatives such as the Objective 2 Locally Based Initiatives".

However, today I have heard Gordon McLaren talk about targeting areas of rural and urban difficulty. I can see why the statement on page 20 might be true of urban industrial communities, but I am not entirely convinced that it is correct to target rural communities in that way. In fact, the reverse may be true—social and economic exclusion in rural communities may be dispersed rather than concentrated.

Professor Mark Shucksmith of the Arkleton Centre for Rural Development Research at the University of Aberdeen concluded in one of his research papers that the hidden and dispersed nature of poverty in rural areas is a key issue and

makes rural poverty hard to address through area-based policies. I have some difficulty squaring what the East of Scotland plan is trying to achieve with some of the academic work that has been done.

In 1999, the Executive commissioned work on social exclusion in rural Scotland from Professor Shucksmith; that work is now available. At the time, the Minister for Communities said:

"We know that social exclusion is a problem in rural areas. It is not usually obvious as high income and low income families often live in the same communities".

Are you taking the right approach to dealing with poverty in rural areas? Because social inclusion in rural areas is not concentrated geographically, is it appropriate to try to define new geographical areas within current areas that are fully eligible for objective 2 funding or are subject to the transitional arrangements?

The Convener: Would you mind if we came back to that question, Bruce? I would like us to concentrate on your initial point first.

Mr McLaren: We have struggled to deal with the issue. In the plan team, we set up a sub-group comprising practitioners from urban and rural communities—its deliberations are reflected in section 3.7 of the plan.

Bruce Crawford: That is the issue that I wanted to come to next.

Mr McLaren: This is still only a proposal, but the approach that we have come up with is to say that we need to target communities, without defining what those communities are. We have not set population thresholds or said that we will target SIPs exclusively, because SIPs are not particularly well represented in the rural context. We have suggested a way of setting up new groupings. We have used the term archipelago, which involves bringing together a number of small communities in an appropriate management arrangement.

In addition, as Bruce Crawford said, we recognised that small pockets of deprivation exist even within rural communities. We recognise the concept of communities of interest, and have suggested that development support could take the form of thematic support that would link up some of the small pockets of deprivation across large areas—through networking, for example.

We have also discussed access to local development finance, community chests and credit union support, which would operate across the programme area and recognise the diversity of the different communities.

The Convener: Before we move on, there is interference with the communications system because a mobile telephone is still switched on.

Would everyone present please check their mobiles to ensure that they are switched off?

Cathy Jamieson has a question about the West of Scotland.

Cathy Jamieson: The West of Scotland programme acknowledges, on page 70 of the document, the mix of urban and rural issues in the programme areas, in terms of the indicators that are used in the index. The programme acknowledges that the extent of poverty and exclusion in some rural communities might be underestimated. As I watched the presentation on the South of Scotland programme, it struck me that rural areas in the West of Scotland plan area would benefit from the approach that is being taken in the South of Scotland. How much opportunity will exist for crossover work and for the areas to learn from one another and to build on those links?

I am concerned about areas that might be subsumed by the bigger urban areas, in terms of finance and targeting. I know that questions have been raised in the West of Scotland about that, as some of the rural communities have been concerned that they might lose out.

Mr Russell: We acknowledge that problem in the document—the programmes will consider economic and social cohesion. However, only part of the budget will be targeted at SIPs, which tend to be located in urban areas.

A balance must be struck. The West of Scotland is eligible because of declining industry, the bulk of which is located in urban areas, and because of urban problems. It is not eligible as an objective 2 region because of specific rural problems. Therefore, we must get the balance right by acknowledging that, within a predominantly urban region, there might be rural areas that need support. There is a specific measure that is not targeted on SIP areas for the very reason that you mentioned: there are people, groups and communities that fall outwith those areas, to which we must give some priority.

Allan Wilson: I am not sure that the dilemma is whether to invest in rural or in urban areas, as opposed to the dilemma that exercises Scottish Enterprise, which is whether to develop opportunities or to address need. How did the three partnerships address that dilemma? If your priorities are to develop the competitiveness and innovative capacity of your region's economy, how does improving the relative competitiveness of that economy dovetail with increasing the economic and social cohesion of the region?

The need to invest in innovation might arise in locations that do not suffer most from the need to improve economic and social cohesion. How do the plans address investment in opportunity rather

than addressing need, given that the needy areas are rarely those in which innovation might be developed best?

Mr Imrie: It is clear from the way in which the map had to be redrawn in line with the new regulation—which focuses on areas of need—that we could not always include as a factor areas of opportunity. That is why, particularly in the west, there was a switch to increasing slightly the economic and social cohesion element of the plan over previous spend.

It has been a theme throughout the three plan areas that one cannot underplay the importance of creating jobs in areas that are best placed for job creation. That is why there is still a substantial strategic sites element, which will be available whether such locations are in fully eligible or transitional areas.

15:15

I am pleased that a couple of points that were made by the Minister for Finance were picked up in the plans. First, a key emphasis is that, in targeting support in transitional areas, we should support economic development projects in areas of opportunity that we were not able to include in the programme. Secondly, we should focus on small areas of need that were not included in the fully eligible areas. In other words, the social inclusion measures will include the transitional areas as well as the fully eligible areas. Therefore, areas such as Craigmillar, which Gordon McLaren mentioned, might be included, as long as they meet the criteria.

In approaching the situation, we recognised that the way in which the regulation deals with concentration of resources requires more emphasis on the lack of economic and social cohesion. At the same time, one must not underestimate the importance of linking people to jobs, which means being able to invest in the opportunity sites.

The last point to which the minister drew attention was the need to ensure that the operation of the programme does not discriminate against rural areas. The different circumstances of rural areas and of the people who live in such areas must be built into the decision-making process, so that a rural project, which will have different parameters and a different ability to meet outputs, is not disadvantaged compared with urban projects.

The Convener: Before I bring Dennis Canavan into the discussion, Bruce Crawford wishes to raise another point.

Bruce Crawford: Cathy Jamieson was right—this is a key issue, on which it was interesting to

hear Colin Imrie's perspective. If we accept that social exclusion in rural communities is not necessarily concentrated geographically, is it appropriate to define new geographical areas within the fully eligible or transitional areas? The East of Scotland plan team acknowledged that that is a weakness, which I am worried about compounding.

On page 24 of the plan, the team comments that there is a

"constrained capacity for effectively delivering economic and social development because of the relatively small population size of many communities in the East of Scotland especially in the rural upland and coastal areas".

With that in mind, should we consider the archipelago approach, which is the term that Gordon McLaren used? Will not that reinforce the weaknesses that are identified in the plan? I have some doubts about that.

Mr Imrie: In answering Bruce Crawford's question, I will elaborate on my earlier comments on not discriminating against rural projects.

We must balance two competing objectives. Throughout the European Commission's administration of structural funds, it has made it clear that it will not hand over a blank cheque for implementing authorities to do what they want. It wants us to define in the programme where we will target support in sufficiently specific terms. In other words, we must set out criteria for implementing the programmes.

In respect of the distinction between rural and urban areas, and in defining the way in which the rural exclusion measures will be implemented, we must take into account the fact that rural exclusion is different from urban exclusion. However, we will still have to be able to demonstrate that we have coherently defined the way in which the measure will be targeted. Gordon McLaren is correct in saying that that is a difficult process, because the process of defining rural deprivation is on-going.

We have fairly good indicators of urban deprivation. Much of our work is based on the 1998 revision of the social deprivation index, which is almost exclusively urban. However, the work on rural deprivation is just beginning. The Scottish Executive is preparing an index of rural deprivation, but that is not yet ready. The East of Scotland plan tries to define how the definition process will work in rural areas, although it is not certain that it will follow only one route—there may be some flexibility before we define the areas.

Bruce Crawford: I understand that specific geographical areas have been identified, but are you saying that other areas might still be eligible, providing that they meet certain criteria? That would be a key to ensuring that there is sufficient flexibility.

Mr McLaren: At this stage, we are trying to keep our options open. We want to take a flexible approach and we hope that the Commission will allow that to be on-going. It is for communities that have a common interest in a particular issue to come forward with proposals. We have been reluctant to set the definition of rural deprivation and produce a closed list of such communities.

The Commission will push us on the population coverage of those areas. We are not sure how that will come out in the negotiations, but I hope that we can keep it open-ended—certainly for the time being. However, I am sure that at some point, in targeting communities with need, we will be forced to produce some sort of list. The clear preference of the plan team and the broader partnership is to keep that open-ended.

We have said that we will seek to target communities, considering a range of defining criteria for both rural and urban communities. We would also take a thematic approach, involving communities with particular interests.

The Convener: Notwithstanding that flexibility, you are still constrained by the ward map.

Mr McLaren: Yes. The map constrains us in terms of both eligible areas and transitional areas. Currently, we are examining how to target both. The distinction will be made according to the availability of funds.

Dennis Canavan: The South of Scotland presentation seemed to place great emphasis on people and on services and opportunities for people. The presentation referred to the higher levels of attainment in schools in the area, and many of the schools in the Borders have excellent reputations. The presentation also referred to the higher education institutions in Dumfries and Galashiels, the migration in and out of the area and the strong community spirit. On the down side there is persistently high unemployment and high levels of deprivation in some areas.

I did not detect the same emphasis on people in the other two presentations. It is important that we adopt a more people-centred approach. Many external observers, including potential inward investors, remark on the attributes of the people of Scotland and note that there is a highly skilled work force or that, because of our education system, there is the potential for a highly skilled work force. Are we putting enough emphasis on that approach in the East of Scotland and West of Scotland, where, with all due respect to our friends in the Borders, there is a greater higher and further education base and where there are probably more opportunities for the development of the knowledge economy?

It is all very well to talk about enterprise and the development of an entrepreneurial spirit, but if we

are to combine that with social justice and social inclusion, it is essential that we take a more people-centred approach. It might be that all that I detected was a difference in terminology, but I felt that the South of Scotland presentation put more emphasis on people.

Mr Russell: There were different emphases in the presentations. The South of Scotland partnership used the term "People and Communities", whereas we used the jargon term "Economic and Social Cohesion". I suspect that we are talking about similar things.

The main focus on people comes from the European social fund and the lowland Scotland-wide objective 3 programme, which represents a different approach to the structural funds. There is also a focus on people in communities and on social inclusion partnership areas.

Allan Wilson: On building the knowledge economy—I am glad to hear Dennis Canavan taking up the new Labour mantra—there is a question whether to invest in opportunity or in need. How do the programmes address the question whether to develop existing rural and urban businesses, such as long-standing small and medium manufacturing enterprises, or to develop innovative technologies and create jobs in building the knowledge economy?

Mr McLaren: That is an important point. The common language in all the programmes relates to growth and competitiveness. It boils down to supporting and building on our strengths. Mr Wilson makes the valid point, with which we have struggled over the years, that we should not neglect traditional industries. The simplest answer that I can give is that SMEs in the service sector and traditional manufacturing industries will be supported, but priority will always be given to sectors that have significant growth potential.

Mr MacKinnon: I want to emphasise that European structural funding will support the delivery of local strategies. Therefore, what matters is the focus of attention of local authorities and the local enterprise network. In the South of Scotland, I hope that the focus will be on e-commerce, on developing indigenous business and on marketing the area as an attractive place to be.

15:30

David Mundell: My question is for Donald MacKinnon, but it applies to the other partnerships. How do the policies of the Scottish Executive fit in? In the South of Scotland partnership document, a number of key issues relating to economic development, such as infrastructure improvements, are identified as being outwith the objective 2 programme.

I understand that the Executive does not plan to upgrade the A75, so that will not happen in the next three years. Timber extraction is a vital part of the economic possibilities of the South of Scotland. However, everybody acknowledges that there is a major funding gap in providing the infrastructure that is necessary for timber extraction. How will you engage with the Executive regarding its part in delivering objectives that are not included in the programme? Should not the programme take into account the fact that those infrastructure improvements will not happen and, therefore, introduce measures to alleviate the problems?

Mr MacKinnon: That is an excellent question. Early in its discussions, the plan team debated the plan at length and discussed whether it should be about the delivery of objective 2 structural funds for 2000-06 and nothing else. We decided that the plan had to refer to the significant constraints on business development, even though improvements could not be paid for by those funds. Another point, which I should have made in the presentation, is that we hope that the plan will be used to inform decision making on rural development regulation. It is crucial to the South of Scotland that the main support for agriculture should take into account the findings that are outlined in the plan.

I will let Colin Imrie answer on the more general question of how the Scottish Executive will take on board the priorities that have been identified by the main agencies in the South of Scotland.

Mr Imrie: I said earlier that there has been a shift over the years in the way in which objective 2 funding intervenes. There used to be a large infrastructure element, particularly in the days of the Strathclyde integrated development operation, but that has virtually disappeared now. The emphasis is now on small-firm support, economic infrastructure and community economic development. The total value of the South of Scotland programme will be between £40 million and £45 million over seven years, which is less than the cost of major transport infrastructure developments for the area, such as the Borders rail link. Our focus is on things other than infrastructure.

I cannot talk in detail about the Scottish Executive's approach to infrastructure, but I know that transport infrastructure will be pursued elsewhere. However, it is legitimate, in an overall economic analysis of the area, to dwell on wider issues, as long as the focus is clearly on what can be delivered through the objective 2 programme.

David Mundell: I fully understand that, but I am trying to put the programme into context. The local enterprise companies and the public and private sectors believe that timber is important for the

future of the economy and realise that it is important to add value to timber before it leaves the area. However, it might be that roads and bridges cannot accommodate timber lorries, and councils do not have the money to pay for the necessary improvements. The Executive is one source of funds for that. What are the mechanics for dialogue—other than South of Scotland members lobbying and raising the matter in Parliament—to ensure that the complementary parts of these plans are discussed? I accept that it is the Executive's role to accept or reject proposals. What is the process for the evaluation of issues that are identified as ancillary to the plan?

Mr Imrie: The process for doing things that are not specifically within the context of the plan will be the subject of wider domestic debate about the priorities of the Executive, and will largely be a matter for the Transport and the Environment Committee. I will be happy to consider your point and respond to it.

The Convener: Clearly, the committee is not the forum for discussion of major strategic investment programmes. We are here to discuss European programmes. However, the relationship between the different programmes is an interesting matter. Over the coming year, as we start to review the implementation of plans and programmes, we should keep an eye on whether there is joined-up thinking between areas.

Dr Sylvia Jackson: The discussion has been fascinating. Colin Imrie said that rural deprivation indicators throughout Scotland could be the starting point for deciding what our ERDF strategy should be. Is that correct?

Mr Imrie: I wanted to say that, in defining rural areas for community action, we must have a methodology that clearly defines our targets. However, the methodology for defining rural deprivation is different from the methodology for defining urban deprivation. Much of the work that has been done so far has focused on urban deprivation. The work on rural deprivation is developing. As Gordon McLaren said, we must have a flexible programme so that we can link in with that process, rather than reaching precipitate decisions now that might limit our flexibility in future.

Dr Jackson: I think that you have misunderstood me. We are looking for indicators of rural deprivation that would be useful not only for this programme, but for various programmes throughout Scotland. In considering ERDF, one would not be studying a specific subset of rural deprivation indicators; one would be studying a definition of rural deprivation. Am I correct?

Mr Imrie: Work is going on at present to define

rural deprivation across the board.

Dr Jackson: That is what I meant.

Mr Imrie: It is important that we link into that process.

Dr Jackson: I understand. My second question concerns the debate about the needs of communities versus opportunities. That was the point that Allan Wilson made. Would we be looking for economic opportunities in areas? An important aspect of ERDF is rural decline. In defining rural decline, we would be thinking about deprivation indicators and about industries that are declining. We might think of tourism or forestry in terms of decline and opportunities. Have I got the global feel of the different elements that have been discussed?

Mr Imrie: I would like to add one more point. In reaching a decision about full eligibility, the Executive decided to propose that the rural decline element should be focused largely on the South of Scotland. Most of the rest of the objective 2 areas, where there were rural populations, were transitional areas. That reflects the fact that the problems were more severe in the South of Scotland. The amount of money that is available to transitional areas is, therefore, much less than in the full areas. As a consequence, the ERDF available in the east to deal with problems of rural decline will not be as significant as that in the south, although some money will be available.

Cathy Jamieson: I am interested in joined-up thinking. How can co-ordination of projects in all rural areas in the new objective 2 programmes be assured? How will they operate alongside the new rural development programme for lowland Scotland, which was submitted by the Scottish Executive rural affairs department and which is expected to be implemented?

Mr MacKinnon: The proposal on modulation is out for consultation. After the consultation process, the minister's decision will be significant in determining the impact that the rural development regulation will have in future. In the South of Scotland, we see the RDR as the future, whereas we think that this is the last time that we will be able to anticipate major structural fund intervention.

If the minister makes the decisions about modulation on which he has been consulting, significant amounts of finance will be available for off-farm development. That will obviously have an impact on small towns and villages as well as on social inclusion issues in rural Scotland. We recognise that rural development is critical, but much depends on the final shape of the plan and on how much money the RDR plan will have.

Mr McLaren: Co-ordination is fundamental. We

mentioned co-ordination between objective 2 and objective 3 European structural funding. We think that there may be an opportunity to effect a similar mechanism between the Scottish Executive rural affairs department's involvement with RDR and the objective 2 programmes, particularly in the south and east, where there are large rural areas. There is a risk of duplication or crossover in a number of areas.

The Convener: How can we be assured that duplication will be avoided? You admit that there is a risk, but what steps are being taken to avoid duplication?

Mr Imrie: The plan team for the rural development regulation had representation from the south and the east and was closely linked with the west. In the preparatory stages, there have been discussions between those responsible for preparing the draft plans for the rural development regulation and the objective 2 programmes. As the Scottish Executive has managing authority over all six structural fund programmes, including the rural development regulation, we must try to ensure consistency. It is important to implement the programmes in a way that is consistent with the way in which the rural development regulation plan is being developed. In practice, they have a slightly different focus, but they must nevertheless be consistent. Under the terms of the regulation, we are obliged to ensure that there is co-ordination.

The Convener: We have never been consulted about the rural development programme. I am not sure whether the Rural Affairs Committee has been adequately consulted. Can you enlighten me about the consultation process with the Parliament?

Mr Imrie: It is my understanding—but it is no more than that—that the consultation took place with your colleagues from the other committee. I do not know about the detail of that, but it happened before the plan was submitted to Brussels in December. It is the responsibility of Mr Finnie.

The Convener: Is anyone here a member of the Rural Affairs Committee? Nobody. Well, we can check up. The clerk can find out what consultation has taken place.

15:45

Tavish Scott (Shetland) (LD): Are the RDR plans being put together on the basis of a sum of money going into them from modulation? If so, what is the time scale? I understand that the RDR is supposed to be ready by the summer. That might mean July or later, I do not know. If the finances are based on a modulation target, there must be a variety of options. I have difficulty

understanding how the RDR is being put together in those circumstances.

Mr Imrie: My understanding is that a draft plan was prepared last year and was submitted to the commission before Christmas. It was made clear by our side that the plan was not final but was a first draft to get the discussions going and was based on the assumption that the funding available would be without modulation. Since then, a consultation exercise has been carried out. Depending on decisions that are taken, the proposal in the draft plan will be amended to take account of the responses to the consultation.

Tavish Scott: This committee could be part of that process. We will have to be careful, as there is not much time before the RDR is supposed to be ready.

The Convener: I expect that this committee and the Rural Affairs Committee will want to be part of that process. Do we agree that we will have an agenda item at the next meeting, or as soon as possible after that, to discuss this matter further? We will want to examine how the process is developing and seek assurances about future consultation. I am beginning to feel uneasy about the fact that information about this major issue is not being fed into the system. Are we agreed?

Members indicated agreement.

Ben Wallace: I want to talk about the issues of sustainability and venture capital.

Gordon McLaren, I find the East of Scotland operational plan easy to read through. In the section that deals with access to risk capital, you talk about public-private investment in small and medium businesses. Laurie Russell and Donald MacKinnon, do your partnerships have similarly direct plans for the delivery of venture capital, given that working towards sustainability after 2006 is an important issue? For example, Gordon's plans talk about a grant range of up to 30 per cent for small and medium businesses.

Mr MacKinnon: The South of Scotland Partnership has considered broader issues. We have discussed access to finance as it relates to business development in our area. I do not know if Gordon has talked about the lowest threshold, which might be £100,000, for example.

We do not have a specific figure, but the local agencies could propose the formation of a venture capital fund to address the constraints of business development. I think that, because of the costs of venture capital transactions, that fund would have to be a mixture of loan and equity or possibly even just loan.

Mr Russell: We have covered sustainability in a more general measure that provides support for businesses. However, that is a very important

point, as a venture capital fund is one of the ways in which we can leave a legacy beyond the period of this programme. The plan team has discussed several ways in which we could use financial engineering, to use the broadest term, not only to provide venture capital for businesses, but to invest in the property market or in the development of derelict land. We intend to use finance in a more imaginative way than it has been used in the past.

We supported a £7 million investment fund for businesses, which was launched about two months ago and approved at the end of the previous programme, in December. It attracted almost £4 million from one of the Scottish banks. There is scope also to consider ways in which we can secure private finance to set up funds that could constitute a legacy that would remain beyond the life of the structural funds.

The Convener: When the Convention of Scottish Local Authorities was discussing the future allocation of structural funds we suggested the option of a fund that would help to recycle money, which—the point that you made, Laurie—would help to continue investment beyond the life of the plan. Did Charlie Woods not examine that in his document “Preparing for Prosperity”? Was that one of the themes that was touched on in that document?

Mr McLaren: Scottish Enterprise established the business growth fund in the autumn of 1999, which increased loan finance to £100,000. That was targeted at smaller businesses and the lower end of the market. Scottish Enterprise has already started to consider such funds in addition to the other financial instruments that it supports.

The Convener: The point that Ben Wallace is driving at is one that came up in discussion when we were preparing Scotland's case for structural funds. The argument was that we should consider a significant investment in loan-type activities, as we knew that the structural funds investment would have a finite life span. That kind of mechanism would allow us to keep the process going long beyond the defined life of the structural fund programme.

Each of you has mentioned a different element, and all are worthy. However, is it not the case that this committee should be asking for some kind of assurance that there will be a strategic focus on that approach at an early stage? It could give added value over a much longer period. Rather than have each of you answer that today, perhaps we should address that question to the minister.

Ben Wallace: I agree. A large factor in these plans is analysis or assessment of the way in which funding programmes were worked through in the past. There is also consideration of present

priorities and the operational plan. Did you consider addressing a chapter to the way in which the funding will continue beyond 2006, if your aims are fulfilled?

Mr McLaren: Our single programming document, as it is currently constructed, runs to seven sections. We issued only four sections, plus the finance plan and the implementation provisions. We have not provided you with the whole text, as we are still working on some of it. There is a section that looks beyond 2006, which addresses issues of financial perpetuity and focuses particularly on mechanisms such as revolving funds, which is what you refer to. Such funds concern the money that is reinvested in the economy when moneys are repaid through loan or equity. A revolving fund is a powerful instrument, as it has a durable legacy. We are also considering other ways in which we can build regional capacity and leave a legacy beyond 2006.

David Mundell: It would be helpful for that to be included in the other plans, including the South of Scotland plan. This is one of the things that people in that area find difficult: to imagine what the south of Scotland will be like in seven years' time and what people will be doing there.

Mr MacKinnon: Clearly, it will be significantly different from what it is now. Our plan team did not have the courage to postulate an e-commerce-based society rather than an agriculture-based one, in which all the forestry roads have been built, the timber has been extracted and the broad-leaf, biodiverse forest has been—

The Convener: We should stick with where we are now. We will return to the point about rolling funds, and we can ask the minister about it.

Last in the line of questioning, but certainly not least, is Winnie Ewing.

Dr Ewing: My question is rather different. I was just going to ask Colin Imrie if he has any news of how the Highlands and Islands are faring. They are in Europe already.

Secondly, you said in your summation, Mr Imrie, that the Commission wants very clear criteria. Are you able to say at this stage whether the Commission will smile on all your documents when you meet with the commissioners? Do you have any indications?

The Convener: Unbelievable. You never miss a trick, Winnie.

Mr Imrie: On the first point, negotiations are continuing with the Commission on the Highlands and Islands plan. A couple of weeks ago, there was a session just after the visit of Graham Meadows to this committee. The Commission is still working on some of the detail. The hope is still that something will be agreed by the end of this

month, so that it can get going as soon as possible thereafter. The Commission wants a bit more detail; the Highlands and Islands want a bit more flexibility. That is always the case in such negotiations, but the hope is that the gap can be bridged in the next week or two.

As far as the documents before us are concerned, the Commission staff are generally aware of our approach and of the move to two priorities. They are also aware that we are doing a lot of work on implementation provisions. They are aware of the general approach being taken by the Lex Gold review, for example. They are aware of the importance of annual review, of the involvement of bodies such as the Scottish Parliament's European Committee and of ensuring that the programme is properly reviewed and implemented—it should not be a matter of simply letting rip for seven years without control. That awareness is being built into the process. In general terms, we think that the Commission is conscious that much of what we are proposing is in line with its general approach.

I cannot be absolutely sure at this stage that commissioners will buy exactly the measures that we are proposing. Having two priorities, as each of our programmes has, is a radical departure from the past, when the Commission usually looked for there being more than two priorities. There were three or four priorities, and more control over how the money was spent. The problem with having more than two priorities is that it is very difficult to work out what the third or fourth priority might be in a programme without a main infrastructure component. In the past, there was a tourism priority in the East of Scotland and the West of Scotland.

We have been working in co-operation with Scottish bodies, including the Scottish Tourist Board, on the basis that the tourism elements would be incorporated in the economic development element. One opportunity might be for one of the priorities to deal with just the building infrastructure for business development. Again, we can argue clearly that that is so closely related to SME development that it should be part of that priority.

We have explained our thinking to the Commission. We have also explained the strategic approach that we have taken to build in the implementation of these programmes, as well as the Highlands and Islands and objective 3 programme, in line with national and area-based strategies. We are confident that we can go into negotiations with something like the current proposals and reach an acceptable outcome. I do not know what the outcome will be, but I am confident about our approach.

The Convener: Winnie, you have been very

patient. Do you have a follow-up question?

Dr Ewing: No. That was a very interesting answer.

Maureen Macmillan: Are there any difficulties in the Highlands and Islands negotiations regarding the transport infrastructure? Can you tell us what the specific difficulties are?

16:00

Mr Imrie: My understanding is that the particular issue that the Commission was keen on in relation to the Highlands and Islands was that of multi-fund priorities. That is a technical issue. The Commission was not concerned about one type of investment as opposed to another; it wanted more integration in the funds for the priorities. The proposal put forward by the Highlands and Islands plan had single fund priorities. There are precedents elsewhere for adopting single fund priorities, but the Commission prefers better integration.

I cannot give too much detail, but we are looking for a way to accommodate both approaches through a multi-fund approach in one priority.

The Convener: I believe that one of your colleagues is dealing with that.

Mr Imrie: Doreen Mellon is still dealing with that, although she has moved on to greater things.

The Convener: It might be helpful for the members who have a particular interest to be given an update on that.

Mr Imrie: I will relay that message and get some information for the committee.

The Convener: Thank you to everyone who has given evidence this afternoon. We have had a very productive discussion, which has opened other lines of argument for us to pursue, not just with the Minister for Finance, but in our future deliberations. I have asked the clerk to the committee to consider some of the issues on which our discussion with Jack McConnell should focus. The presentation has helped that enormously.

Reporters

The Convener: The next item on the agenda is the draft terms of reference for the reports of Maureen Macmillan and Tavish Scott. We welcome Tavish back and congratulate him on the birth of his son. I know that as a modern man he will be playing his full part in the duties associated with a young infant.

Maureen Macmillan: The working title of the report is "A Review of the Impact of European List 1 Designated Disease Infectious Salmon Anaemia and List 2 Disease Viral Haemorrhagic Septicaemia on the Scottish Aquaculture Industry". Most members will have heard of ISA because there has been a lot of talk about it, but not many will have heard of viral haemorrhagic septicaemia.

The Scottish salmon farming industry is worried about those diseases. Scottish salmon is not only a quality product of worldwide renown, but supports an industry essential to the nation's economic well-being. It is a key employer in rural areas, particularly in the Highlands and Islands: 6,500 people work in salmon farming and associated downstream activities. The industry is worth around £500 million to the rural economy and most of it is centred in small communities. I was in Shetland at the weekend, where I was told that 40 per cent of the economy comes from the aquaculture industry. That shows how important the industry is for some communities. The impact of infectious salmon anaemia on the industry and the fears over the possible effects of viral haemorrhagic septicaemia are of acute and understandable concern.

ISA was first recorded in Norway in 1984 and has been present in Scottish fish farms since 1998. ISA is a list 1 exotic disease under European directive 93/53/EEC. At present, some 10 per cent of Scotland's fish farms are affected. The disease is not harmful to humans, as it cannot survive in the human stomach, but it is devastating to salmon stocks and is highly contagious. European Union measures to contain the disease are extremely stringent. They include the slaughter of all fish on any farm where the presence of the virus is confirmed, even though that may not mean that the fish have the disease. Even when it is merely suspected that the virus is present, tough controls such as movement restrictions, disinfecting, fallowing and the setting up of control zones around farms are implemented.

The regulations in Norway are different. Norway is not a member of the EU but sells its fish within the EU. It pursues a slightly different policy, which aims to control the disease rather than completely eradicate it. The list 1 status of the disease—the fact that it is an exotic disease—may be

undermined if it is shown to be present in the wild. There have been some indications that that may be the case, particularly in salmon parr in fresh water in the River Conon. I believe that there have also been cases involving a trout in the River Tweed and an eel somewhere else.

In December 1999, John Home Robertson, the minister with responsibility for fisheries, announced in the Scottish Parliament that the Executive would be contacting the European Commission with various proposals as to how to deal with the problem of ISA. Those included changes to the strict eradication rules and a review of the criteria in the handling of suspect sites. Ian Hudghton MEP acted as reporter to the EU Committee on Fisheries and presented the proposals, which included a proposal to lift the ban on vaccination. That proposal has now gone through the committee and is awaiting ratification by the Council of Ministers.

Even if there is a relaxation of the regulations, there are still serious problems, particularly related to compensation. It is impossible to insure against losses caused by implementation of the current regulations on ISA because of third-party intervention clauses and the fact that banks are now reluctant to lend to farmers using fish stock as collateral. The disease therefore has severe financial implications. A compensation package announced in 1999 proved unworkable. There are other plans to deliver some help through Highlands and Islands Enterprise. There have been glitches in delivering that, although those may now have been overcome. Nevertheless, there are complaints that the assistance does not go far enough.

Viral haemorrhagic septicaemia is a list 2 disease. In the marine environment, it is found in whitefish. It has been found in freshwater trout farms throughout Europe, but not in the UK. Indeed, there has been only one outbreak of VHS in the UK so far, which devastated a turbot farm in Gigha. An international research project is under way into the prevalence of the VHS virus in European marine waters. VHS has significance for the development of whitefish aquaculture.

My report will examine the incidence and clinical effects of ISA; the current EU regulations for control and eradication of ISA, which are changing at the moment; the financial impact of the disease and the EU regulations on the industry; waste disposal of dead fish and of fish suspected of having the disease; support from the Executive for affected businesses and insurance for the industry. I also want to compare the Norwegian experience and examine possible future developments in aquaculture and in the implementation of the regulations.

I want to examine the incidence and clinical

effects of VHS and the present EU regulations. I also want to find out about the importance of whitefish farming to the future of the aquaculture industry.

I do not think that the project will result in the committee proposing legislation, but it may provide the committee with material that will enable it to lobby the Executive about how it tackles the problem of aquaculture and fish diseases.

I do not expect to spend very long on the review—perhaps six weeks to a couple of months. I have drawn up a list of organisations that I am in the process of consulting. It is not definitive, and I am open to suggestions if members can think of other organisations that would be worth consulting. However, I do not want to keep consulting about the same aspects of the project. I have already been to the Northern Marine College in Shetland and talked to the Scottish Environmental Protection Agency. I have an appointment to visit the Marine Laboratory in Aberdeen and am in contact with Aquascot Ltd, which is a salmon-farming firm. I will also get in touch with someone who can tell me about the situation in Norway.

Most travel will be in and around the Highlands and Islands, and some people may come to the Parliament to speak to me. Outside research is coming to me without my asking for it; I am being sent documents about fish diseases in every post.

The Convener: You are snowed under.

Maureen Macmillan: I will be the world's expert on fish diseases by the end of this review.

It is proposed that the project team should be made up of me and David Simpson—who has been taking notes at meetings that I have had. I hope to consult Tavish Scott, whose constituency depends to a great extent on salmon farming. As I said, I spoke to people in Shetland last weekend. The Scottish Parliament information centre has also done some research for me. If anyone else wishes to be involved, they are very welcome.

Dr Ewing: Maureen has done such a lot already that I must offer my congratulations. I do not know whether all members have it, but I have Ian Hudghton's speech on this subject, which is quite interesting. Maureen's report will be very timely, because it will coincide with the meeting of the Fisheries Council, which will rule on the matters that were raised by the fisheries committee—support for a vaccination scheme and support for compensation.

Like Maureen, I was in Shetland to meet the salmon producers not so long ago. Their burning concern is survival. The small men are likely to go to the wall. That may mean that the big boys can buy them up, but I do not know whether anybody

wants that. Some producers are in extreme danger because they cannot borrow from the banks. The banks will not now lend readily to any producers, whether their stocks are affected by fish diseases or not, because they are no longer regarded as security. Because of restocking, many producers cannot afford to carry on.

The Norwegian experience was originally as grave as ours, but Norway has adopted the remedy of containment rather than slaughter. The graphs showing the incidence of fish diseases there suggest that their method is more successful than our rather more drastic one. I think that Maureen is proceeding along exactly the right lines.

The Convener: It would be helpful if some of the background comments that Winnie has made could be made available to Maureen. I am sure that she would welcome that.

Dr Ewing: I will inform Maureen of any other bodies that can be added to her list.

The Convener: Do we think that the terms of reference are right and that the time scale is realistic?

Tavish Scott: Thank you for your earlier remarks, convener. I am sleeping very well, especially when I am in Edinburgh.

I think that this study is important, but the time scale may be ambitious, given the amount of work that could be done in this area. Maureen may want to relax her deadline of the end of March. My second point relates to the amount of work that is involved here.

As this is the European Committee, we should look closely at the EU regulations and how they impact on the industry because, as Winnie Ewing and Maureen Macmillan will agree, that is the area that we are getting representations on. There is a lot in a study that has just been done by an industry-Government working group. The report is 2 in thick and loaded with information, most of which you could cut out and paste in. It is important that this study concentrates heavily on EU legislation and regulations, and for Maureen to identify where they can be improved, amended or enlightened.

16:15

Maureen Macmillan: There are two aspects to the effects of the regulations. There are economic implications, from how much disinfection costs to whether Tesco will buy the salmon if it hears that it comes from a designated zone. I have been in contact with the industry over the past two or three months, so I know quite a lot of the background. I am not too worried about the two-month time scale, but I may have to come back to the

committee if I cannot do it.

The other issue is following, and eradication rather than control. I want to look in some detail at whether the Norwegian system is better. There is a lot of anecdotal evidence at the moment, but we have to get some firm evidence.

The Convener: What about Tavish's suggestion about concentrating on EU legislation? Are you happy with that?

Maureen Macmillan: Yes. That is fine, but other issues will arise.

The Convener: Are we content with Maureen's proposals, and that she has the right to come back to the committee if she finds that the time scale is a bit tight?

Members indicated agreement.

The Convener: Thank you, Maureen. As Winnie said, you have done a power of work already.

The next reporter is Tavish.

Tavish Scott: I will be really brief. I hope that this report is a targeted and precise piece of work. EU legislation affecting agriculture in Scotland is, as any member here with a rural constituency or region will be all too well aware, a constant bugbear, and we are receiving an increasing number of representations about it. It is important to look at how EU regulations apply to Scottish agriculture plc, and at whether we can find ways in which the regulations can be tuned in a way that is more appropriate for our industry. Also, there has always been a perception that EU regulations are applied more diligently in the United Kingdom than they are in other parts of the European Union. I would like either to prove or to disprove that, and I would be happy to proceed on that basis. It is targeted work.

As with Maureen's report, in respect of which a recent Government-industry study has come out, I am aware that a red tape review has just been completed by an industry working group. It has a lot of solid information in it, but when it came to EU agriculture regulation it looked at just the arable sector, so there is room to look in a focused way at perception and reality. The rest of this document is self explanatory. People who are interested will have read it, so I will not go over it.

The Convener: Thank you, Tavish. Are there any comments?

Dr Ewing: Tavish, could you add forestry, because crofters are complaining about woodland grants being cut?

Tavish Scott: I am happy to do that.

Dennis Canavan: Would the inquiry touch on broader aspects of reform of the common

agricultural policy, or is it more focused than that?

Tavish Scott: I suggest that it is more focused than that. Reform of the CAP is an area that will emerge from the Commission's work. I suspect that we will have the opportunity, when we are in Brussels at the end of March, to pursue that question with the Commissioner for Agriculture and Fisheries, Franz Fischler. Dennis could ask his question then, and we could see whether there was a further piece of work that someone might take forward.

The Convener: We are meeting Mr Fischler, so that provides an opportunity. Do we agree the remit and the time scale?

Members indicated agreement.

Scrutiny

The Convener: We come now to the final item on our agenda—the scrutiny of European documentation.

Dr Ewing: May I suggest that you ask us to raise only issues on which we do not agree with the recommendation?

The Convener: Absolutely.

Dr Ewing: Thank you. I was not at the previous meeting—perhaps that had already been agreed.

The Convener: For the following document, the recommendation is for priority scrutiny:

SP 777 (EC Ref No 5047/00 COM(99) 747)

Is that agreed?

Members indicated agreement.

The Convener: For the following documents, the recommendation is for no further action, but to copy them to another committee for interest:

SP 781 (EC Ref No 5255/00 COM(99) 750)

SP 784 (EC Ref No 5600/00)

SP 785 (EC Ref No 5627/00 COM(99) 709 2000/022 (COD))

SP 786 (EC Ref No 5742/00 COM(2000) 20)

SP 811 (EC Ref No COM(99) 643)

SP 818 (EC Ref No 6193/00 COM(2000) 48)

Is that agreed?

Members indicated agreement.

The Convener: Pages 3 to 5 are on documents for which no further action is recommended.

Ben Wallace: The title for SP 498 is:

“Proposal for a Council Regulation establishing a Community framework for the collection and management of the fisheries data needed to conduct the common fisheries policy”

As it is a proposal for regulation and is about the collection of fisheries data, this may be the time to input the proposal to the committees concerned with Europe, such as the Rural Affairs Committee. The proposal will obviously affect that committee's decisions on changes to policy.

The Convener: All right. For the following document, the recommendation is for no further action, but to copy it to the Rural Affairs Committee for interest:

SP 498 (EC Ref No 12347/99 COM(99) 541 final)

Is that agreed?

Members indicated agreement.

Ben Wallace: I also wanted to ask about SP 814 on the general budget of the European Union. I have raised points about the budget before. I have not yet seen the information, although I am sure that it is on its way.

The Convener: We will have to come back to this, because the budget will need to be on the agenda as a specific item. Stephen Imrie will see to that.

Dr Ewing: I would like SP 779 to be referred to the Rural Affairs Committee, because what happens after 2002 is of fundamental importance for the whole sea-fishing industry. We should be given any documents that discuss that. There is alarming information about access to the North sea by Spain and Portugal, which is what they have been after ever since they got into the EU. SP 778, SP 779 and any documents that relate to that would be of interest to me; and I think that the Rural Affairs Committee should, as of right, get them too.

The Convener: For the following documents, the recommendation is for no further action, but to copy them to the Rural Affairs Committee for interest:

SP 778 (EC Ref No 5050/00 COM(2000) 15)

SP 779 (EC Ref No 5051/00 COM(2000) 14)

Is that agreed?

Members indicated agreement.

Dr Ewing: I have another completely different point. SP 782 refers to the social background of Erasmus students. Our universities and colleges have made great use of the Erasmus programme. The social background of our students would be of interest to anyone in the Education, Culture and Sport Committee and could lead to suggestions being made to our universities and colleges. I am happy with the way in which we have taken up Erasmus; it was I who introduced it, so I have a certain interest.

The Convener: I suggest that we should circulate that document and that it might be worth having a brief discussion on it to see whether it is worth passing on either to the Education, Culture and Sport Committee or to the Enterprise and Lifelong Learning Committee.

For the following document, the decision is to defer the decision until a future meeting:

SP 782 (EC Ref No 5493/00 COM(2000) 4)

Is that agreed?

Members indicated agreement.

Maureen Macmillan: SP 778 is on aquaculture,

which may be of relevance to work that I am doing. I would like to see a copy.

The Convener: Anyone who wishes to see any of the documents should see Stephen Imrie.

The committee recommended that no further action be taken on the following documents:

SP 503 (EC Ref No 12350/99 COM(99) 551 final)
 SP 772 (EC Ref No 14182/99 COM(99) 645)
 SP 773 (EC Ref No 5104/00 COM(99) 494)
 SP 774 (EC Ref No 5595/00 COM(99) 699)
 SP 775 (EC Ref No 5909/00 COM(2000) 29)
 SP 776 (EC Ref No 13123/1/99 REV 1)
 SP 780 (EC Ref No 5215/00 COM(99) 732)
 SP 783 (EC Ref No 5556/00)
 SP 787 (EC Ref No 5702/00 COM(2000) 18)
 SP 788 (EC Ref No 5743/00 COM(2000) 24)
 SP 789 (EC Ref No 5769/00 COM(2000) 25 AVC 2000/0029)
 SP 790 (EC Ref No 5638/00 COM(2000) 10 (Vol I))
 SP 791 (EC Ref No 5638/00 ADD1 COM(2000) 10 (Vol II))
 SP 792 (EC Ref No 5776/00 COM(2000) 28)
 SP 793 (EC Ref No 5800/00 COM(2000) 23)
 SP 794 (EC Ref No 5817/00 COM(2000) 30)
 SP 795 (EC Ref No 5824/00 COM(2000) 11)
 SP 796 (EC Ref No 5826/00 COM(2000) 8)
 SP 797 (EC Ref No 5911/00 COM(2000) 35)
 SP 799 (EC Ref No 5900/00 COM(2000) 36)
 SP 801 (EC Ref No 5951/00 COM(2000) 44 final COD 98/0202)
 SP 805 (EC Ref No 5995/00 COM(2000) 17)
 SP 807 (EC Ref No 6053/00 COM(2000) 61 CNS)
 SP 812 (EC Ref No 5970/00 COM(2000) 9 2000/0024 CNS)
 SP 813 (EC Ref No 14261/99 COM(99) 657)
 SP 814 (EC Ref No SEC(2000) 150 – EN)
 SP 815 (EC Ref No 6047/00 COM(99) 726 2000/0034 (COD))
 SP 816 (EC Ref No 5540/00 COM(99) 725)
 SP 817 (EC Ref No 6248/00 COM(2000) 54 1999/0015(COD))
 SP 819 (EC Ref No 6191/00 COM(2000) 58)
 SP 823 (EC Ref No 6052/00 COM(2000) 55

99/0020 (COD))

SP 798 (EC Ref No 6004/00)

SP 808 (EC Ref No 1607/00)

SP 809 (EC Ref No 5975/1/00 REV 1)

SP 810 (EC Ref No 5976/1/00)

The Convener: Thank you, members. This has been a long but productive meeting. The Minister for Finance is coming to our next meeting in two weeks' time.

Meeting closed at 16:24.

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