EUROPEAN COMMITTEE

Tuesday 16 May 2000
(*Afternoon*)

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EUROPEAN COMMITTEE
9th 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 Manfred Beschel (Directorate-General for Regional Policy, European Commission)
Dr Nigel Blewitt (Institute of Welsh Affairs)
Dr Gillian Bristow (University of Cardiff)
Mr Tim Figures (Directorate-General for Regional Policy, European Commission)
Councillor Christine May (Convention of Scottish Local Authorities)

CLERK TEAM LEADER

Stephen Imrie

ASSISTANT CLERK

David Simpson

LOCATION

Committee Room 2

Scottish Parliament

European Committee

Tuesday 16 May 2000

(*Afternoon*)

[THE CONVENER *opened the meeting at 13:15*]

The Convener (Hugh Henry): Thank you for your forbearance. Welcome to the European Committee's ninth meeting of 2000. I apologise to our witnesses and members of the public for the delay in bringing them in. We were discussing one or two housekeeping issues that are not on our formal agenda.

Today we will begin our inquiry into European structural funds and their implementation in Scotland. Because the Parliament is moving to Glasgow this week, there has been slight disruption of the committees. We will have to vacate this room just after 3 o'clock to allow another committee to come in.

I have received apologies from Tavish Scott, who has constituency engagements. Unfortunately, Winnie Ewing cannot attend because of illness. The committee sends its best wishes to her. Sylvia Jackson is attending another committee meeting at the moment.

European Structural Funds

The Convener: I welcome Dr Blewitt and Dr Bristow—please forgive any mispronunciations on my part—who are here from Wales to speak to us about European structural funds. This morning they appeared before the Finance Committee to speak about the same issue, which the Finance Committee is examining from a slightly different perspective. We are delighted that they have been able to stay on to meet us. I ask them to make their presentation, after which they will take questions.

Dr Nigel Blewitt (Institute of Welsh Affairs): Gillian Bristow and I are delighted to be here today. We hope that we will be able to help you with your inquiry into structural funds, which have exercised our minds for the past year or so. In the briefing paper that has been circulated to members we have summarised the main issues that we uncovered in our fuller report, "Unravelling the Knot: The Interaction of UK Treasury and European Union Funding for Wales", which has also been circulated.

The reason that we examined this issue was that west Wales and the valleys had been granted objective 1 status by the European Commission. That was seen as a significant boost to development of the economy in that part of Wales. However, the programme had significant financial implications because of the percentage of the population covered—60 to 65 per cent of the Welsh population is now covered by objective 1. In our report and in the paper that we have submitted to you today we attempted to tease out the main funding issues that needed to be addressed, so as to make clear what resources would come to Wales once the programme was up and running. Some of the same issues are relevant to Scotland, as it also has European-funded programmes. The formulae and mechanisms are similar, although the scale and types of programmes may be different. Today we will take a very general approach to this problem.

Dr Gillian Bristow (University of Cardiff): One of the issues that we have been examining in the Welsh context, which also applies in the Scottish context, is the interaction between European structural funds and the block grant, and how that interaction affects the volume of structural funds that are made available in Wales and Scotland. It is important to be clear about the definition of European structural funds and how they relate to public expenditure. For the purposes of public expenditure in the UK, there are three key elements of European funding. It is important to know that if one is to understand the nature of the interactions.

The first element is the grant from the European Commission—the amount that the Commission says is available under each objective or initiative. The second element is the public expenditure defined by the UK Government as provision in the block grant—the provision that is made available for spending the grant commitments by the European Commission. The third element, which has been particularly important in Wales, is match funding—the non-European Union grant element of project costs, which is made up of both a public and a private sector component.

Dr Blewitt: As we all know, Scotland and Wales will continue to be funded by the block grant, annual changes in which will be determined by changes in expenditure on comparable programmes in England. Wales and Scotland will receive shares in that increase relative to the size of their populations. The key point for this inquiry, and more generally, is that elements of European funding are treated as comparable programmes within the UK public expenditure system. That means that when there are changes in provision in UK departments, there are implications for the Welsh and Scottish blocks. There is a direct relationship between those two things—they are not independent of each other.

We are concerned that there is a mismatch between the numbers quoted in the single programming documents for Scotland and Wales—whether they be for objective 1, objective 2, objective 3 or the various community initiatives—which have been agreed between the Governments and the European Commission, and the provision that is made available through the block grant, which is determined by relative population size, according to the Barnett formula. The main issue that we addressed, therefore, was the relationship between the funds provided and the cover needed to spend those funds when they get to Wales or Scotland.

Given that structural funds are part of the assigned budget of the National Assembly for Wales and the Scottish Parliament, the respective administrations are free to allocate cover for European regional development funds and so on, according to their priorities. If they think that they need more cover for ERDF, they have the opportunity to move resources from other parts of the assigned budget into that. That might put pressure on other non-EU programmes and take resources away from other spending areas. The significance of that is apparent in Wales from the fact that at the moment baseline provision for spending of ERDF is in the region of £20 million per year. However, the single programming document suggests that £90 million per year is needed for ERDF cover, which means that there is already a shortfall of £70 million from year 2 of the programme. I say year 2 because expenditure tends to trail the commitments that are made in the documents. The key issue is public expenditure survey cover and how it relates to what comes through from the Treasury.

The other major factor, which was touched on by Gillian Bristow, is match funding. In recent months that has been a very contentious issue in Wales. There is a great deal of pressure on public sector and quasi-public sector institutions that are going to use structural funds—local authorities, higher education and further education institutions, and quangos such as the Welsh Development Agency and the Environment Agency—to find cover within their budgets to match-fund the grants that are available from Europe. All those organisations receive most of their funding from the block grant. That will put pressure on them to reallocate resources, possibly from other spending areas, in order to spend the available objective 1 grants. In Wales, the total match fund envisaged for the public sector over the nine-year period is about £880 million. A good £100 million a year of public sector match funding has to be found from allocations made from the block grant.

Dr Bristow: All that has implications for additionality, which we have also been considering. The question arises, to what extent does the block grant in Scotland or Wales have to increase to satisfy the rules and regulations on additionality? To what extent does public expenditure have to be increased to ensure that structural fund resources are actually additional to the block grant?

The EU regulations on additionality suggest that the UK Government is required only to demonstrate that public expenditure in eligible regions that benefit from structural fund programmes is at least equal to the level achieved in the previous programming period. It is a fairly ambiguous definition, but it suggests that public expenditure simply needs to be the same as in the 1994 to 1999 programming period.

A major difficulty lies with the assessment of additionality. What is the baseline level of public expenditure for comparison? One of the most difficult issues to determine has been precisely what is included in the public expenditure for comparative purposes. There is a suggestion that public expenditure used for comparative purposes might include an element of provisional cover for previous programmes, which makes the whole assessment of additionality incredibly difficult.

It is important to note that, as far as the UK is concerned, additionality requires to be demonstrated at a UK level only; there is no requirement as yet to demonstrate additionality at a Scottish or Welsh level. The regulations simply insist that the UK Government demonstrate additionality for the UK as a whole.

It is also important to note the distinction between additionality and match funding. What has emerged from the debate in Wales is that there is no compulsion on the UK Government to provide extra resources to meet the extra demand for public sector match funding in order to satisfy the additionality rules and regulations.

In Wales, the principle of match funding and the requirement that extra resources be made available to ease the pressure on public match funding providers has become important. It is felt that, in the spirit of additionality, there should at least be increased public sector provision to enable match funding commitments to be met.

We also touch on the issue of the UK rebate and its role and impact on the UK Government's contribution to the EU budget. We suggest that the rebate's impact is to provide a disincentive for the UK Government to draw down and spend European structural funds. The reason is that the more the UK benefits from structural funds, the smaller the size of the rebate and the less the flexibility of the Government to spend the resources and distribute them in the way that it sees fit. That is significant because it suggests that there is a potential incentive to exercise restraint in the spending of European moneys in the UK.

One of the main recommendations that we made in our "Unravelling the Knot" report was that the European money should be treated separately from the block grant. It should not be subject to the workings of the Barnett formula. We also suggest, as we mentioned at the Finance Committee's meeting this morning, that questions need to be asked about how the volume of provision to spend European money in the block grant relates to the allocations indicated in the agreed single programming documents. We considered that bit of information to be vital to assessing where the resources are additional to the block grant. We are considering how the volume of provision relates to what the European Commission has said Scotland is eligible for.

The Convener: Thank you for that very detailed presentation. You have touched on a number of key issues, including additionality, the block grant and match funding. From your perspective, what is the biggest problem facing Wales? Is it finding the match funding?

13:30

Dr Bristow: The key problem has possibly been with match funding. The experience of previous programmes in Wales has demonstrated that it is very difficult to secure public sector match funding. The bigger problem is the scale of the objective 1 programme in Wales—it is the fact that the programme covers some two thirds of the population and two thirds of the area of Wales. That means a huge step change in the interaction between the block grant and the European structural funds. A huge increase both in the volume of match funding and in provision is required.

The Convener: You have identified the problem of finding the available resources to match the European funding from the block grant as the funding increases. What of the converse? If European funding were to decrease, what would that mean for the block grant?

Dr Blewitt: If the eligibility of Wales to receive European funds fell relative to England, Wales would still be affected by the Barnett formula, so it could be the case that there was more money to spend than was needed according to what was suggested in the documents. Before we put any numbers to that, we would have to be very careful in checking the figures.

The Convener: So if your funding is falling, you benefit relative to other areas. Is it the case that, if you then do away with the Barnett formula, the funding could potentially be shifted to the areas that benefit from European funding at the expense of the areas where the European funding is decreasing?

Dr Blewitt: That would probably be the case, yes.

Dennis Canavan (Falkirk West): Thank you very much for your very good presentation, and for the briefing paper that you submitted, in which you state:

> "Furthermore, additionality will be assessed for all Objective 1 regions in the UK as a whole, and not on the basis of each individual programme or region."

Is it therefore possible, at least in theory, to have a lack of additionality in one region, in one programme or in a set of programmes, provided that that is compensated by a surplus of additionality in other regions and in other programmes?

Dr Bristow: That is indeed the case in principle. We do not know that, however, because that assessment is not made; it is very difficult to get any evidence in support of that.

Dennis Canavan: So you cannot tell us whether that happens in practice?

Dr Bristow: No, but following the logic of the argument, it could happen.

Dennis Canavan: In your paper, what do you mean by a region? Under that definition, is Wales a region? Would Scotland or Northern Ireland be a region under that definition, or are we talking about sub-national regions?

Dr Blewitt: By regions, we mean programme regions. That can include west Wales and the valleys or the Highlands and Islands.

Dennis Canavan: Would what you have just said, and your definition of additionality, specifically on assessment of objective 1 regions, also apply to objective 2?

Dr Bristow: Yes.

Dr Blewitt: It could do.

Dennis Canavan: So it is overall additionality throughout the UK that counts rather than additionality at programme or regional level?

Dr Blewitt: Yes. Additionality has to be displayed across all objective 1 or objective 2 regions together. The two objectives are separated for additionality purposes, but each objective 1 region comes together for additionality. However, objective 1 and objective 2 are not compared—they are not lumped in together, but are separate.

Bruce Crawford (Mid Scotland and Fife) (SNP): I will try not to go over the same ground that we went over this morning, but as I said in the private session, to some extent that is inevitable, because we are setting out the ground. I am primarily interested in the witnesses' evidence on additionality and the Barnett formula, although I know that we will have to take evidence on match funding, which is still an important issue, from others.

In seeking a definition of additionality, I submit article 11 of the regulations taken from the *Official Journal of the European Communities* of 26 June 1999, with which I know the witnesses are familiar. The first paragraph states:

"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."

Is that definition, or a similar one, the one that Dr Bristow used as the anchor for her understanding of additionality as described in the written evidence?

Dr Bristow: Yes. As the member says and as the debate in Wales has emphasised, it is pointless having structural funds if they have no net additional impact. Therefore, any assessment of additionality has to take the basic premise that some increase in resources is expected, which will have a beneficial impact.

Bruce Crawford: The committee is aware from the documentation kindly circulated to us by the clerk that, in September last year, the Minister for Finance wrote to us and told us quite specifically:

"If payments of structural fund grant increases or decreases from one year to the next, the resources available for other purposes change correspondingly, subject of course to any changes in the assigned budget as a whole. Thus, the Executive will adjust its other programmes up or down to reflect the expected call on the assigned budget from structural payments in any year."

The First Minister confirmed to me that that was the case in an answer to a question that I put to the chamber on 7 October.

In view of the statement made by the Minister for Finance, does Dr Bristow agree that the descriptions make it perfectly clear that incoming structural funds are not adding to the net level of overall expenditure in Scotland and are therefore not additional to the bottom line budget in Scotland and in Wales?

Dr Bristow: As we have said, it is difficult for us to say definitively that there is non-additionality. More information, comparing grant allocations with levels of provision as determined by the Barnett formula, needs to be available. What you say seems to suggest that an element of expenditure switching is going on within the block grant to shift resources from European programmes to other areas or vice versa.

Dr Blewitt: That would not necessarily be in breach of the rules on additionality as long as the money being spent on activities relating to economic development was not falling—it has to be on expenditure that is related to what the structural funds operate on. Underspend in some other area may be used, but that does not necessarily demonstrate non-additionality, because the level of expenditure on economic, industrial and business development may have been kept the same as the baseline.

Bruce Crawford: I understand that point. I intend to ask the commissioner about the specific issue of interpretation, because it is important as far as the inquiry is concerned.

The Convener: We will stick with that point, Bruce, and I will let you back in on your other points. Irene Oldfather wants to come in on that specific issue.

Irene Oldfather (Cunninghame South) (Lab): I am trying to tease out what Bruce Crawford is saying. You mentioned that there are three elements to the block grant: the grant from the EU, public expenditure by the Government and the match funding, which is the non-EU element. I want to follow up what Hugh Henry and Bruce Crawford said and consider the practical implications of that in Scotland. If the grant from the EU—that element of the block grant—was decreasing, what would be the practical implications of a change to ring-fencing money outwith the block grant in Scotland? What happens if we follow what Bruce Crawford said through to its logical conclusion?

Dr Blewitt: That is tricky. If there are agreed single programme documents for the specific objectives within Scotland, and if the amount of expenditure that is being provided is enough to satisfy the programmes specified, then there should be no need to put pressure on other parts of the block. It would be less of a problem if provision is falling from year to year and that ties in with a fall in grants needed in Scotland than if there is the opposite situation, where the allocation should be going up because new single programme documents have been agreed with much higher levels of commitment, but the increase is not coming through the block grant to recognise that.

Bruce Crawford: The obvious next question concerns the impact of the Barnett formula on the structural funds. The Barnett formula is primarily population based. Over and above the problems of additionality and the fluctuation in the Scottish assigned budget, we have the problem of the Barnett squeeze. Information that was given in a Westminster parliamentary question on 13 April 1999 shows that the share of the UK structural fund allocation that is given to Scotland varies: in 1997 it was 13.4 per cent, in 1998 it was 23.3 per cent and in 1999 it was 15 per cent. The only three years when it was below 10 per cent were 1992, 1993 and 1994.

If we are getting roughly a 10 per cent share of the UK expenditure yet we have had allocated to us 23 per cent of the UK structural fund allocation, then the remaining 13 per cent must either be squeezed from the structural fund spend or from the block and from other expenditure programmes. Would you comment on those figures and what they mean for a block that changes as the amount of EU money coming into Scotland changes and whether that might signal that the best way to deal with EU structural funds, as your report suggests, may be ring-fencing?

Dr Blewitt: Our report suggests that it should be treated according to need. We pointed out this morning that European programmes are based on the Commission's assessment of need in the area—for example, that objective 1 status is given if gross domestic product per head is less than 75 per cent of the EU average. Using the Barnett formula is at odds with that.

It is important to note that you do not get 10 per cent of the programme but 10 per cent of the increase in the programme, so there is always a baseline figure that is, in a sense, a figment, carried forward from year to year. There is a contradiction between the fluctuations in the receipts that Scotland is eligible for and the distribution of cover for those receipts coming through the Barnett formula. I agree that the two should be separated.

Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab): I would like to clarify your views on the Barnett formula. I note that in your report "Unravelling the Knot" you comment:

> "It seems, however, that Scotland and Northern Ireland have fared well out of the Barnett formula arrangements",

and you appear also to be suggesting that the comparison between Wales and Scotland suggests that Wales has not benefited. If the Barnett formula were renewed, would it be the case, to put it crudely, that Scotland would lose out as a consequence of increased funding to Wales?

Dr Blewitt: That is tricky.

Dr Bristow: There are other arguments for reviewing the Barnett formula. Our report has covered a number of issues of which the interaction—

Cathy Jamieson: I appreciate that there are other arguments and that the comparison is crude, but I would like your views. Would that potentially have an impact on expenditure in Scotland?

I also note that in the first section of the report you recommend:

> "There should be a fundamental review of the suitability of the Barnett formula as a funding mechanism for Wales, Scotland and Northern Ireland."

How did you come to that conclusion without having looked specifically at the Scottish situation?

13:45

Dr Bristow: A number of studies of the Barnett formula have been undertaken and there was an inquiry by the Treasury Select Committee, on which we based our assessment. There is a general feeling that there is a need for review of how the devolved Parliament and assemblies are funded. We added weight to that, suggesting that given the evidence available and the questions about how spending per head relates to differences in need across the UK, there is a long-term need for review.

Cathy Jamieson: To be absolutely clear, you are suggesting that currently Scotland gets more than its fair share under the Barnett formula and you would wish to see that changed?

Dr Blewitt: Not necessarily more than its fair share—but we think Wales does not get its fair share. The argument could be turned round.

Cathy Jamieson: You suggest in the report that perhaps Scotland and Northern Ireland have had more than their fair share.

Dr Blewitt: You have to remember that the population ratio used was fixed for 12 years, until 1992, and that Scotland's population fell during parts of the late 1970s and early 1980s. So it would seem that the Barnett formula expenditure was at a higher level than possibly the population merited. In Wales the reverse was true: the population was increasing throughout the 1980s and early 1990s yet the population figure informing the block grant through the Barnett formula was slightly smaller than the actual population. That has now been rectified, because the population figures are updated annually.

The Convener: Cathy Jamieson's question is that if the Government was to follow your recommendation, is it potentially the case that the net consequence could be that Scotland could lose while Wales could gain?

Dr Bristow: We cannot answer that question because it would depend on the outcome of any review and what the new funding formula was.

The Convener: But, potentially, it could happen.

Dr Blewitt: Potentially, it could.

Dr Bristow: It could also not happen.

Ben Wallace (North-East Scotland) (Con): You read out the updated regulation on additionality, originally drafted in 1988. When you were working on your report, were you in touch with the Commission to ask for their current interpretation of that regulation?

Dr Bristow: No, although our report has been read by—

Ben Wallace: Would that not have been appropriate? Their interpretation of additionality today is much more appropriate than the 1988 version, if you look at the differences in the wording.

I have spoken to Michel Barnier's office and to members of his cabinet. Would you comment on how they view additionality? Ronnie Hall, depute de cabinet, regional policy secretariat, said that they hold to two guidelines: to respect the regulation as defined, but also the spirit of it—the maximum impact on socio-economic conditions in the areas concerned. So the end goal is not necessarily as written in the original draft. He also said that additionality is not cash in hand. If that is the current view of the Commission, it somewhat alters the spirit of your report. It seems that your submission is based only on the written interpretation of additionality.

Dr Bristow: It comes down to the point that was made earlier: the matter is open to negotiation. Thus far, the onus has been on the UK Government to agree the baseline level of public expenditure, interpret additionality and decide what to include in the overall estimates.

Ben Wallace: You based your submission on the EU's definition of additionality. Should you have updated that definition? You seem to be blaming the UK Treasury for its interpretation of additionality when it is merely putting through structural funds from the Commission, which sets the original definition.

Dr Bristow: We have also based our evidence on how the discussion on additionality has featured in the objective 1 debate in Wales. We considered the debates around additionality such as that relating to the requirements for match funding. I do not think that it is correct to say that we have based our evidence solely on the EU regulation, although that is obviously the baseline point.

Ben Wallace: We are aware that Wales is often grouped with England in the work of Government departments. Certain amounts of money will come into Wales by that route—as happens in Scotland, as well—and will be hard to trace. Those moneys are in addition to the block grant. For example, in a written answer, the Minister for Finance gave me figures for the breakdown of the contribution to Scotland from the Department for Education and Employment. In 1995, it amounted to £22 million a year. That is objective 3 money that comes into Scotland but—because it is part of a UK project—is not part of the declared block. Do you have figures for that sort of contribution into Wales?

Dr Blewitt: No, although we could get them.

Ben Wallace: That £22 million is a significant amount of European money. I would have thought that it would be significant when considering questions of additionality and match funding in Wales.

You mention a £75 million shortfall. On 26 October last year, the Secretary of State for Wales told the Select Committee on Welsh Affairs that £75 million was available. In the ensuing discussion, Richard Livsey MP asked whether that was new money. The secretary of state was not clear whether it was. However, the following day in the House of Commons, he made it clear that, although the £75 million was made up of money left over from old European projects, it was additional money.

On 26 July 1999 in the House of Lords, it was declared that the Treasury would take account of the issue in the next comprehensive spending review, as the objective 1 status was granted to Wales only after the previous comprehensive spending review. Considering that the programme has seven years left before it concludes, do you think that there is a chance that projects could be funded at the end? The first year will be taken up with the granting of permission for projects and so on before the money flows through from the Treasury. We are debating whether objective 1 status will be granted at the beginning of the programme and not at the end, in 2006.

Dr Blewitt: One of the issues in Wales is that, if we start committing to expenditure now, we will give projects the go-ahead without knowing how much provision we will have in the block in three or four years' time. That will create uncertainty for other budgets. We cannot simply say to organisations that we will probably have the money in three or four years' time. They need to know now whether they can build those figures into their budget lines and draw down the European funds.

Ben Wallace: As that applies to Scotland, without objective 1 funding, projects could be approved as they come about—as you will be aware, most objective 2 funding is on a project-by-project basis. Funding for a project in the east of Scotland will not be dependent on whether a project in the west of Scotland gets similar funding in five years' time. That means that the Scottish funding could be back-ended without an adverse effect on other spending areas.

Dr Blewitt: That is correct.

Maureen Macmillan (Highlands and Islands) (Lab): We are in danger of being confused about the meaning of additionality. It does not mean additional money; it means the additional benefit that is gained when money is spent on projects that would not otherwise have gone forward and that have a social impact.

It was suggested that additionality is agreed through negotiations between the European Commission and the UK. Surely, however, a sum of all the projects is what is relevant. I am from the Highlands and Islands, which has objective 1 status, and I know that additionality is negotiated in Brussels by people from the Highlands and Islands talking to the European Commission about the additionality of what they are proposing. Sometimes, certain projects will not be judged to have enough additionality and the sums will have to be done again. I presume that representatives from west Wales and the valleys go through a similar process of negotiations.

The Highlands and Islands programmes have always had match funding and additionality. That has never been a problem, whereas it seems to have been in Wales. As Ben Wallace said, the situation is new to you and funding will have to come at the end, rather than up front. From experience, I can say that nothing much will happen in the first year as your time will be spent working out what projects will be undertaken and so on. The match funding will, we hope, be coming through by the time all that is sorted out.

Dr Blewitt: That is a fair point. Our paper is concerned solely with financial additionality, not with additionality in terms of economic impact. That is for other people to assess.

Allan Wilson (Cunninghame North) (Lab): Dr Bristow said that it was pointless to measure additionality without a net additional impact being demonstrated to substantiate the investment in structural funds. Is that the case even in a standstill or a declining budget? The point of reference for the measurement of additionality is comparable national structural funds. Guaranteeing additionality in financial terms guarantees that a greater proportion of public expenditure will go on local economic development and urban and rural regeneration than would be the case through other streams of social expenditure such as farming subsidies. That would demonstrate additionality at the point of delivery.

Dr Bristow: There is an issue about the consequences of that for other elements of the budget. In the fullest sense of additionality, is it right simply to put more money into economic development to support the European programmes while other areas of the budget suffer? The concern over what has happened in Wales is that the scale of the objective 1 programme is so significant that any such switching between budgets in Wales will lead to other areas suffering considerably.

14:00

Allan Wilson: Would it be pointless to target additional resources to the Highlands and Islands or the valleys of Wales?

Dr Bristow: Would it be pointless?

Allan Wilson: I am saying that it would not be pointless.

Dr Bristow: No.

Irene Oldfather: The example that you cite in your paper is objective 1 in Wales. I understand the point that you are making about public expenditure totals having been fixed before the first year of the objective 1 funding. However, is not the situation in Wales radically different from that in Scotland? In Wales, there has been a massive increase in the spending of European funding, through objective 1, whereas in Scotland there have been decreases. By 2006, we may even be considering an exit strategy. I do not understand how it would be in our interests to ring-fence this money. Perhaps you could explain it to me a little better. Such action might make sense retrospectively and in the Welsh situation, but looking to the future in Scotland I do not understand how ring fencing would be in our interests.

Dr Bristow: Only the numbers will tell what will happen. We definitely need those numbers to determine what the pattern has been over the years and to predict the pattern into the future.

Irene Oldfather: Enlargement of the European Union to the east of Europe is on the horizon. Do you not agree that the needs in the east are going to be different from those here? All the indications are that the money is going to be moving east. I cannot understand how we can conserve our position beyond 2006.

Dr Blewitt: If the position in Scotland is improving, there is surely less need for the money. The programme situation has deteriorated significantly in Wales.

Irene Oldfather: You agree that the situation in Scotland is the opposite of that in Wales, and that ring-fencing the money would not be to our benefit.

Dr Blewitt: Possibly. We cannot tell without very close examination of the figures, which we have not got.

Dr Bristow: Scotland should be eligible for whatever European money the European Commission says that it is entitled to. That principle surely applies today, while European programmes are still in operation. We are saying that we do not know the numbers that are involved and that that information is required.

The Convener: Irene, did you have a final question?

Irene Oldfather: I would like to put this in simple terms. Let us assume that the block grant is £100 and that the public expenditure is £80—80 per cent of the block grant. If the European figure is £10 and the match funding is £10, the block grant is £100. If the European money is separated from that, the public expenditure remains 80 per cent—or £80—but the European figure goes down. We know that it will go down, and after 2006 it might no longer be there. Will not the total element be much reduced? I do not understand the rationale. Perhaps this matter is political rather than academic. I can understand that academics want to argue for transparency and so on. However, politically we are about providing the best deal for Scotland and I do not understand the matter in that context.

The Convener: Before I invite Bruce Crawford to speak, would you like to respond to that?

Dr Blewitt: No, except to say that it is true that there are political elements to the issue.

Bruce Crawford: We are obviously straying into the political arena but I shall try to keep my comments in the context of the technical facts. I want to clarify whether I understand the issue. I do not agree with what Irene Oldfather has just said—that is not what I understand by additionality, in terms of match funding. Match funding issues are becoming wrapped up in the argument.

Every year, for the past 25 years—apart from three years—Scotland has received a greater share of the European structural funds that are received by the UK than it has been allocated in the Barnett formula. For the next six years, Scotland will receive more than its fair share of European structural funds than is allocated through the Barnett formula because of the Barnett squeeze—in each of those years, more than 10 per cent of the UK's structural funds will be allocated to Scotland. That is a fact, which everyone can check. Scotland will receive £900 million. The key question for this committee is whether we want Scotland to receive that £900 million separated out of the Barnett formula.

If that £900 million enters the system, another £900 million has to come out of the assigned block to make room for it, which could be spent on other public expenditure. That is the key issue of additionality. Do you share my understanding of the facts, if those figures are correct?

Dr Bristow *indicated agreement.*

Dr Blewitt *indicated agreement.*

Bruce Crawford: Thank you. That is an affirmation, for the record.

David Mundell (South of Scotland) (Con): The question that I was going to ask, on the difference between Scotland and Wales, has been covered by Irene Oldfather. I would like to ask a further question in relation to what she was arguing.

It comes as a surprise to learn that, previously, we had argued that European funding that was due to other parts of the UK should be brought to Scotland. Following the other arguments, I understood that the rules governing how much money Scotland received were fixed and that we could not say, "We are entitled to this, and we will get another 10 or 15 per cent through the Barnett formula." What criteria would apply to an internal, UK assessment of additionality? Are there no rules that the Commission would want to apply to ensure that the funds were being used in a genuinely additional way on a regional basis?

Dr Blewitt: No.

Dr Bristow: Because additionality is based on the UK-wide assessment, there are no rules, as far as we are aware, to govern the way in which additionality should or could be measured in Scotland or Wales, or at a sub-regional level.

The Convener: That may be something that we should ask the European Commission.

Dr Blewitt: Indeed.

The Convener: If anything comes to mind after this meeting, I suggest that the committee can send any further questions to you—through the clerk—when we have had the chance to think about today's discussions. Thank you for your detailed evidence, which has given us food for thought. I am sure that we will return to your comments, which have led us into the argument well. Thank you for delaying your departure to attend this meeting.

Dr Bristow: Thank you.

Dr Blewitt: It was a pleasure.

The Convener: I suggest that we change the running order and invite the representatives from the European Commission to give their presentation. We welcome Manfred Beschel and Tim Figures, from the directorate-general for regional policy. Tim has attended this committee before, but Manfred has not. I shall allow them both time to get settled.

I formally welcome our two colleagues from the European Commission. I believe that Manfred will begin the presentation.

Mr Manfred Beschel (Directorate-General for Regional Policy, European Commission): Yes. Thank you for the invitation to present our comments on the issue that you want to discuss. I want to emphasise the fact that, for the Commission, political interest in structural funds is a very good thing, because it facilitates guidance and transparency. I have read the *Official Report* of the evidence that Graham Meadows gave to the European Committee a couple of months ago. I must say that I will probably be less entertaining than Graham was, but I will try to be at least as clear.

The issue of additionality takes me back to the time when I worked in the Commission—more than 10 years ago—because it was in my unit that the text of the additionality legislation was drafted. The effort and time that it took to put down three simple lines, which had one simple purpose, amazed me. That purpose is explained by the history of the structural funds. Before that time, structural funds were a means of refinancing national budgets, without one penny more being spent on actual investments. That perspective provides a basic idea of what additionality means: to ensure that member states do not lessen their own efforts in investments for development or put the European money into their own pockets.

How we achieve additionality is very complicated. In that respect, the Commission has made progress. In July 1999, it issued guidelines that—for the first time—included streamlined tables that explain and try to monitor the process, by category of investments. The Commission has to monitor national budgets and that is a complicated issue. The mechanisms in the national budgets might vary.

Additionality is essentially a means of producing more investment. When the idea was first discussed, the thinking was that, if the Commission put in more money, member states should also invest more—there would be additionality on both sides. That idea, together with the concept of sanctions on the non-respect of additionality, was cut short by the member states themselves. The member states did not allow such sanctions and did not want to be obliged to put in more money in relation to what was in their budgets.

I was listening to your discussion on the spirit of additionality. Additionality cannot be explained only in a budgetary sense because the rules on that are short, general and perhaps not very helpful. Additionality must be seen in the context of other principles that were introduced in the reform of the structural funds, such as concentration and matched funding. Concentration means that the moneys have to be spent in the areas where the need is the greatest. Although, technically, additionality would allow a member state, in all its objective 1 regions, to put the money where it wanted, concentration would work against that. It would not be logical for the Commission to concentrate expenditure in certain regions and for the member state to take out its own investment. Concentration assures additionality on a global basis; the Commission wants to ensure that, if it is making a special effort in an area, the member state joins in. That is very important.

14:15

The third principle of co-financing—matched funding—is the demonstration of that effort. Co-financing means that the member state has to make available the necessary complementary finance. We will not finance the projects 100 per cent, but only up to a certain percentage. Co-financing demonstrates how the member state uses its own money to complement the efforts that are being made by the Commission. The relationship between the funds—one euro from the member state for every euro from the Commission—reassures the Commission that the member state wants to make an effort, because the programmes are concentrated in the areas with the greatest need. Co-financing is important. However, it must not disturb the overall structure of financing in a given region. When we put in our money, we do not want a rupture in investment in other areas. We would like the areas to have balanced development and we want that to be a joint effort between the Commission and the member state.

As for Scotland, for the next period of programming, the annual allocation will be roughly the same, although there is a minus 4 per cent difference. The overall amount is bigger because the period is longer, but the annual instalment will be slightly less. The proposal that the Scottish Executive submitted to the Commission suggested a co-financing rate of 1.09 per 1.00 from Europe. That is an acceptable basis on which to work. In the objective 2 areas, the percentage of regional co-financing is even higher. That is very reassuring for us and follows the line of traditional investment in Scotland. The situation does not pose any problems at the outset. We have continuity, a good co-financing proposal and we will check whether the Scottish Executive keeps its word. As it stands, the proposal is acceptable overall.

Additionality, concentration and programming are important, as is the fourth element, which is partnership. Partnership is exemplary in Scotland. In Scotland, we found that the different partners were involved, and will be involved, in the preparation and the execution of programmes. That reassured us, and with good reason. In his presentation to the committee, Graham Meadows spoke about Scotland having a flagship role in the presentation and execution of its programmes.

Additionality is the best test for a practical, cross-checking instrument at project or programme level, as it enables people to see whether a given action would not have taken place had European money not been available. I make it clear that the regulations do not require that sort of check, although it is a practical way of seeing whether the additional money that comes from Europe has been spent in the region as intended, in the sense that it produced more investments than would have occurred otherwise. In the context of the other principles, if one has the basic policy of additionality, and if there is a cross-check at project level, one will have a fairly good view of how the money is being spent.

I end my presentation with the following thought: in general, the new regulations are based on the three fundamental principles of effectiveness, transparency and subsidiarity. MSPs are very much involved in both subsidiarity and transparency and the Commission appreciates political guidance on structural funds. Effectiveness is a joint objective, in the sense that we should consider jointly what we want to achieve and how we should go about achieving those aims. We want the programmes to have clear objectives on where we all want Scotland to be in six years' time, what its role in the European economy will be, how its social structures will be organised and what its place will be. The programming that we are discussing is based along those lines.

Financial management will be easier, although not in the sense that it will be more flexible. It is clear that the mechanics of financial management will be both easier and more brutal. Subsidiarity will be in place, but we will have a joint goal of getting the best that we can for Scotland during that period.

The Convener: Thank you, Manfred. That was an exceptionally clear exposition and, in your own way, it was very entertaining. It was also useful for us to be able to draw on historical developments and on your experience.

Does Tim Figures wish to add anything?

Mr Tim Figures (European Commission Directorate-General for Regional Policy): No.

Dennis Canavan: Could you tell us in some detail about how the European Commission assesses whether additionality is a reality? How rigorous is the assessment? Is there someone in your directorate-general who studies assessments? You mentioned monitoring the national budgets of the member states. Is that on-going? Into how much detail do you go? How frequently do you conduct that monitoring?

Ms Margo MacDonald (Lothians) (SNP): Do you mark them out of 10? [*Laughter.*]

Mr Beschel: We are now at the beginning of the programme period, when a member state must submit its ex ante additionality perspective. In other words, the member state must submit tables in a given format, which is set out in the Commission's guidelines, indicating the level of national spending in the additionality categories of expenditure over the next programming period. That first and most basic step is taken by all objective 1 regions in a given member state. In my view, the new system will improve important practices. Not only will the member state have to give the numbers, it will have to give the sources from which those numbers stem, so that they can be verified.

Secondly, member states will have to submit annually the adjusted figures, so that there will be a continuous, annual monitoring system. That monitoring will be carried out by the structural funds directorate-general—special departments will follow up that work—and by the macro-economic department, which is our economic and finance department. Those departments will work together on the monitoring system, which has been streamlined. The tables are now the same, whereas in the past there were some differences in the presentation of member states' figures and in how those figures were composed. We want a pre-assessment—a pre-evaluation—of additionality and a monitoring mechanism that will allow us to see, year by year, what happens to the money.

I am giving you the technical stuff, but I must add that additionality, in that sense, will allow verification only if a member state has spent the amount of national money in the areas concerned as a whole for the categories of expenditure that were foreseen in the ex ante evaluation. If a member state has not done so, members will have seen from the regulations that there are no specific sanctions to be applied by the Commission, because member states would not accept the Commission's proposal for sanctions. Therefore, the Commission can state only that additionality has or has not been respected.

In practical terms, the role of the operational departments will be to provide a warning when additionality has not been respected. At that stage, we will have to consider other issues, such as whether the expenditure of our money in the regions has been properly co-financed, whether the programmes have been well executed, whether they have reached their targets and whether the targets were well set. Those elements will lead to the specific attention of the Commission being drawn to the areas in which it has competence. As I said, additionality is part of a bigger pattern. Usually, if a member state does not respect additionality, we might easily find other areas in which that member state is not delivering. That is where we will look and where we will act.

Dennis Canavan: Has a member state ever failed the assessment?

Mr Beschel: I do not know about all member states, but there were cases of member states not fully respecting the assessment, usually for reasons of budgetary discipline or to do with future participation in economic and monetary union.

14:30

Our macro-economists sometimes felt that it was more important to have budgetary discipline than to have expenditure on the ground. The situation has been alleviated to a certain extent by the cohesion fund, which was assigned to member states that might have problems getting their budget in line with the requirements of monetary union, to help them keep their momentum. There have been cases when member states have brought forward their explanations and the matter has ended there.

Dennis Canavan: Is there a case for extending the assessment, so that it is not only the member state and its overall budget that is assessed but areas, regions or countries within the member state?

Mr Beschel: Not in a technical sense. The technical verification of additionality is done, for objective 1 regions, for the totality of all objective 1 regions in a member state and, for objectives 2 and 3, for the whole of the member state.

Ms MacDonald: If you have deepened and widened your scrutiny to such an extent, have you extended the size of your unit?

Mr Beschel: I am inclined to say quite the contrary.

If I were to go into that, it would take all afternoon. I am in a battle—I perhaps would not really call it that—for additionality, in a sense, for my unit. I do not know whether I will get it, but if we could get an additional post or two it would help a lot.

The idea of the verification of additionality, in terms of manpower, is to streamline the procedures to allow a more harmonised examination so that you do not have to examine too much individually; you do it in a harmonised way. Our economists examine the additionality to find the sources and then the matter is closed.

If you are asking whether I am short of people in doing the job, I would not say that we are completely short of people, but I could say, "Yes, we have to make a great effort to get our job done."

Bruce Crawford: Thank you very much, Manfred, especially for your introduction, which I found useful. You are certainly entertaining in your own right, as the convener rightly said.

I will ask you about the monitoring of additionality at national, regional and local level and about the spirit of additionality.

You said clearly that you do not want there to be reduction of expenditure at the member state level and that you do not think that there are issues about monitoring or additionality, certainly not in the technical sense, at regional and local levels.

I have circulated to the committee and to Tim Figures, so that you have the document in front of you, a copy of a letter dated 11 April from Michel Barnier, who is the commissioner responsible for this matter. In the annexe, he confirms your view about reduction in expenditure at a member state level and about the monitoring being done across all of the objective area. However, in the third paragraph of the annexe, he states:

"On the other hand, the Commission is very much aware that the whole is the sum of the parts, and the respect for the principle of additionality at national level is therefore inevitably mirrored quite closely at the regional or programme level. As Commissioner Liikanen emphasised on 17 March, the Commission will therefore be particularly attentive to the overall spending figures it receives in the context of the procedures for the verification of additionality in cases where there is evidence of reduced expenditure in a given region or regions."

As well as that statement by Barnier, we have a statement from the Minister for Finance, in which he says quite clearly that as resources available from the EU come into the Scottish assigned budget,

"the Executive will adjust its other programmes up or down, to reflect the expected call on the Assigned Budget from Structural Fund Payments in any year."

We have monitoring at national level, we have a statement from Commissioner Barnier that indicates that increased attention will be paid to additionality at regional level, and we have a statement from the Minister for Finance in Scotland telling us that other programmes suffer because of EU funds. Forgive me, but I have difficulty understanding how that squares with the principle of additionality. I will quote the minister's statement in its entirety if you wish, convener.

Mr Beschel: I have seen the text and I have two comments to make on it.

If, in a given objective 1 region, we found a reduction in expenditure compared with the previous years, that would make us very attentive. We would ask ourselves whether, if a Government is not spending as much as it has in the past in a region that needs that spending, it is likely to be respecting additionality in all regions. That would prompt us to look into the issue further. If a Government has not ensured the normal outcome in one region—because additionality relates to what is happening on the ground—we will examine the position in all regions, as there is an indication that something may be wrong overall.

That further investigation might indicate one of two things. First, it might indicate that additionality has not been respected, which would be a political issue for the Commission and for the respective regional and local partners. Secondly, it might indicate that, overall, additionality has been respected but that the money has gone to other objective 1 regions because of the priorities of the national Government concerned. In that case, we would seek to establish whether the member state was failing to allocate resources to those most in need.

If, for example, a Government gave more money to an objective 1 region whose gross domestic product per head was close to 75 per cent of the EU average than to a region whose GDP per head was far below that figure, we would point out that that was not logical. It is, therefore, possible that, even though additionality has been respected overall, money has been diverted from one region to another. That would be particularly risky in objective 2 programmes, as they affect the whole country. It could happen that, for internal political reasons, the member state failed to concentrate investment in the areas that had been designated as most in need. The Commission would make a fuss about that, as it would not be able to understand why money that was intended to go to regions in need had been assigned elsewhere.

Those are the two levels at which additionality comes in. However, Mr Crawford will have seen that failure on one point inevitably triggers the consideration of others. In itself, additionality is a mechanism to avoid the member state spending less that it should. If that happens, we usually find several indications of what could be wrong in other areas, which we follow up.

Mr Figures: It is important to distinguish between the overall agreement that we reach with the member state on levels of expenditure, co-financing and so on over the whole life of the programme and the mechanics by which specific payments are made to projects as and when they are claimed. We are considering establishing an agreement for the seven years of the programming period and the two years after that during which payments can be made. We reach an agreement at the start, check it in the middle to ensure that things are going right and, when everything is finished, we reach a judgment on whether the agreement was respected. That is slightly different from the individual situation in any year during which payments are being made, which is simply a consequence of the way in which project activity operates.

The Convener: I want to follow up Bruce Crawford's question to Manfred Beschel. First, has the United Kingdom Government respected additionality? Secondly, with reference to the letter from Commissioner Barnier, does the Commission have any concern about evidence of reduced expenditure in regions in the UK?

Mr Beschel: If you are referring to the additionality principle in the sense of article 11 of the regulation, we have no indication that additionality is not being respected on a UK level.

The Convener: Given your comment that reduced expenditure in regions is sometimes symptomatic of a bigger problem, do you have any concerns about additionality?

Mr Beschel: We are currently examining some of the UK regions to ascertain whether the co-financing situation is such that the programmes can be executed effectively—we are considering the principle of efficiency—and that the necessary budget provisions are being made to do so. We are considering whether those provisions are being made without disrupting the overall structure of spending in a given region.

The Convener: Do you have any historical concerns about what has happened in the past in relation to those principles?

Mr Beschel: Not in the past.

Bruce Crawford: One of the purposes of our inquiry is to discover whether there are past practices that the Commission should be examining. However, I want to talk about the spirit of additionality, not just the technical issues. I have circulated to my colleagues a copy of a European Parliament motion passed on 10 April by 368 votes to 10. It was an all-party resolution that was supported by all the groups in the Scottish Parliament. One of the key points made in the resolution is that the European Parliament:

"Fully endorses the Commission's statement underlining the spirit of additionality".

I would like to ask Mr Beschel how much consideration is given to the spirit of additionality, rather than the technical aspects. If our inquiry were to conclude that although the letter of the law on additionality is not being broken, the spirit is, what view would the Commission take?

14:45

Mr Beschel: The officials of the Commission would make representations to their hierarchy and to our commissioner to draw their attention to such issues. The Commission would then arrange for it to be discussed. It is an overall guiding principle on the political level. It would no longer be a technical issue, but would be an issue of the overall comprehension of how structural policy should be carried out. I think that that would hardly ever arise only in relation to additionality.

The Commission would investigate further and say that as it had reason to believe that certain intentions of structural policies—certain levels of efficiency and effectiveness that we would like there to be—were not being fully exploited, it would like to discuss how the situation could be improved.

Ms MacDonald: On scrutiny and investigation, given that you have put in place an improved, simpler or more uniform method of accountability, can you say with any certainty that there has not been a breach of the rules or spirit of additionality in the past?

Mr Beschel: I have to pass on that question. I have experience of some countries. In the countries with which I worked, additionality was respected.

Ms MacDonald: I will not embarrass you by asking which countries.

Mr Beschel: I would be speculating if I said any more because I do not have the necessary hard information. If you wish, our departments that have followed additionality in the past can submit some information on that in writing. However, it is beyond my scope of knowledge at this point.

The Convener: That is very helpful.

Allan Wilson: Did your comments about subjecting some regional structural fund expenditure to closer scrutiny relate to objective 1, objective 2, or both?

Mr Beschel: In all cases, we are just doing an examination of that issue. If your question is whether that situation would arise more easily in one region than in another, the answer is probably yes. For instance, a sharp increase or decrease in European structural fund moneys in a region would be an indication that the financial structures accompanying the process might be affected and have to be examined.

David Mundell: I want to clarify something. You said that although the Commission does not have strict powers to intervene in a member state over allocations within that state, if you were not satisfied on the issues of additionality and concentration, you would make a fuss. Is that correct?

Mr Beschel: Yes. Certainly.

Ben Wallace: Thank you, Manfred. I would like to return to the issue of auditing and the submissions that your office receives from the member states. You mentioned that they submit information in a standard format. Does it have a name?

Mr Beschel: If you do not have the guidelines from the Commission, we can let you have them. They contain two or three pages on additionality, one of which is a sort of form, the intention of which is to identify the types of expenditure that are covered by that funding. Member states must fill in that form and state how much of the funding they allocate to transport, education or whatever. They must give the budgetary references, which are the basis for monitoring.

Ben Wallace: Is that a closed document or one that we could request to see?

Mr Beschel: The guidelines are contained in a public document, which could be made available to you.

Ben Wallace: Are there any categories on that form that you are not happy with? In the annexe to his letter, Michel Barnier talks about

"the reference point for the measurement of additionality".

He says:

"Two important points to note are that, firstly, not all public expenditure categories feature in the additionality exercise, for example, most forms of social expenditure",

which are obviously huge for most governments. Are there categories that are not included in your paper, which you would like to include in future? It seems that your only guideline is whether the budget drops or rises.

Mr Beschel: We are trying to achieve a parallel that is as strong and straight as possible between our kind of expenditure under the structural funds and the same type of expenditure in the national budget. That is the basis for comparison. We are not so interested in what happens to expenditure that is outside the realm of the financing of structural funds, not because that is not good, but because it is not an adequate point of reference for us. Basically, we do not want to have our expenditure substituted for international expenditure. Therefore, the same categories of expenditure must be taken as a reference point. We do not want that reference to be extended beyond the eligibility of our own expenditure.

Of course, we do not want the expenditure that we are not co-financing, for example, social expenditure, to be disrupted because there is no appropriate match funding for our funds. However, that is not a problem of additionality, but of determining whether the best way of achieving balanced development in a region would be to take away the money for hospitals and to allocate it to business. That is another issue.

Ben Wallace: As a sort of review, you produce what you call an annual execution report on structural funding.

Mr Beschel: Yes. That report is produced once a year.

Ben Wallace: In 1989, Commissioner Millan objected to some of the UK's plans, which were changed as a result. Since 1989, have we ever been found to be in conflict with additionality in those reports?

Mr Beschel: That goes back to before my time. However, there was indeed an issue over the way in which structural funds were treated within the national procedures in the United Kingdom. That was ended by a specific agreement in 1992, whereby it was assured that the flow of finance from European structural funding from Brussels to the ultimate beneficiary was accountable.

Ben Wallace: And since then?

Mr Beschel: Since then, there has been no issue or query on that.

The Convener: We can see from that contribution that Ben Wallace has completely embraced the European project, with his rendition of Bruce Millan's name as "Mee-lan".

Mr Beschel: I worked quite closely with Bruce Millan, and I have a fond memory of that.

Ms MacDonald: But do you say Millan with the stress on the first syllable or with the stress on the second syllable?

Mr Beschel: I call him Commissioner. [*Laughter.*]

The Convener: Very well answered.

I thank the Commission yet again for its contribution. Thank you, Manfred, for your personal input. It has been a delight to meet you today, and I hope that we get an opportunity to meet you again. I know that Tim Figures is in regular contact with the Scottish Executive. We hope that he will be also be in touch with the Scottish Parliament, and we look forward to future communications.

As I said for the previous session, if there are any questions that come to mind, we would like to take the opportunity to submit them to you in writing. We look forward with anticipation to a reply from you on the specific answer to a question that was asked earlier. Thank you very much indeed.

The next contribution is from the Convention of Scottish Local Authorities. Councillor Christine May is the leader of Fife Council and is also the spokesperson for COSLA on European affairs. We are running slightly behind schedule. That puts a bit of pressure on Christine, and I apologise for that.

Councillor Christine May (Convention of Scottish Local Authorities): I will be as brief as possible, convener. It is also possible for me to make available later the text of what I am about to say. We would be pleased to answer any questions that subsequently arise.

The Convener: Fine. That is helpful.

Councillor May: I welcome this opportunity to make a contribution to this inquiry into European structural funds on behalf of Scottish local government.

COSLA has played a leading role over the past three years in developing Scotland's case in the reform of EU structural funds. I was also recently a member of the review group established by the Minister for Finance to examine the administration of the programme in Scotland for 2000 to 2006. One of our key objectives in the review group's report, which was presented by and commented on by the Minister for Finance, is to achieve exactly the outcomes that were described by Mr Beschel a moment ago: effectiveness, transparency and subsidiarity.

Local government in Scotland has been extremely active, playing a leading role in the development of structural fund programmes over the past 25 years. It has brought a lot of its experience to bear in preparing the new programmes for the new period, through its involvement in the five planning teams and its membership of the Scottish co-ordination team.

You asked whether the structural funds are additional to the Scottish budget. It is clear that most of the current debate in Scotland and in the UK about additionality is based on a slight confusion between additionality and the availability of co-finance. The debate in Scotland centres, it seems to me, around that availability of co-finance.

We have heard about the UK Government's legal obligation to follow the rules of the UK as set out in the structural funds regulations, as amended by the Kerr-Millan agreement. They are intended to show that the EU grant-aided parts are identifiably extra or additional money. The Commission will carry out the assessment for the new programme before the negotiations are completed. We have heard about that process today.

There are two elements with which COSLA is concerned: the EU-funded part and the domestic, co-funded part. The Treasury ensures that there are sufficient funds in the assigned budget; it is up to project sponsors to find the co-funding. No structural funds will pay 100 per cent of the cost. The type of project varies and the level of finance varies, and I can make information on that available to the committee. We have heard that the European Commission is, by and large, satisfied with the operation of the previous programme, and we have some comment on the submission made; however, the Commission appears to be reasonably satisfied with the Scottish element.

To date, there appear to have been sufficient resources in the Scottish assigned block to support the approved European funding programme. In Scotland, the draw-down rate is about 99 per cent, which is the best rate of any region of the United Kingdom. We hope to replicate that with the new funds coming through. Those funds are, as I am sure you all know, administered through the local plan partnerships and the five programmes that are proposed for 2000 to 2006.

15:00

We hope that the current good practice in Scotland will continue. Central to that is an understanding of how European approval of projects takes place. First, the grant is the minimum for the project to take place; secondly, the EU funding is supposed to be the last source of funding for an eligible project. All other forms are to be in place before the EU funding is sought.

In Scotland, the approval of projects is not automatic. A project may be technically eligible. It may fit the objectives and the organisation may be eligible, but it will be subject to the process of scoring and qualitative assessment within the advisory groups. That is the peer review, which I believe is essential for ensuring that the supported projects are the ones that fit best within the programme. The resources for the whole programme are limited by the support that the European Union provides to us. Those resources will not meet all the potential demands made, and there is an even greater need to ensure, in the new round, that all approved projects will meet their spending target and, much more important, their output target. There is no point in spending the money without having generated any benefit from it.

Match funding—or co-finance—has been anticipated in budget decisions by both the Scottish Office and the Scottish Executive, and by local authorities and the enterprise networks. Scotland has managed to achieve such a large percentage draw-down of funds because the match funding has always been available from the parts of the overall Scottish block allocated to the various project sponsors in their respective sectors. The decision to seek the funding depends on the availability of the match funding or co-finance. Scotland's record shows that that is the case.

It is important to remember that there are no priority partners in structural fund programmes. All partners have an equal right to submit projects, and there is no requirement on UK Government, on the Scottish Executive or on the European Commission to ensure that local authority projects are supported by structural funds. There are frequent cases in which local authority projects might not be able to be funded due to a lack of co-finance. That does not reflect a problem with additionality, but merely with availability of co-finance, usually due to the decisions of a local authority to fund other activities that may be ineligible for structural fund support. The position of both the Scottish Executive and the European Commission is that the regions of Scotland have benefited from the fact that Scottish programmes have always committed fully the EU funding awarded and that, therefore, no overall identifiable co-finance problem exists. However, individual local authorities would, I am sure, disagree with aspects of that with regard to how funding has impacted on their respective ability to spend.

Overall—over the region of Scotland and over all the European programmes—there has been draw-down, and additionality has been demonstrated. That represents extra funding for local projects at a local level. The structural funds are designed, broadly, to promote economic regeneration, and they have represented significant funding for economic development projects. The problem for local government is that, as financial constraints affect individual councils, difficult decisions are taken about which elements of local authority budgets will receive greater priority for the allocation of resources within that authority. The areas of local government expenditure that are coming under the greatest pressure are those areas of council budgets used to fund economic development projects which are eligible to attract EU funding. It is difficult, however, to present evidence of projects not going ahead directly because of a lack of additionality at a local level.

In COSLA, we note significant moves on the part of local authorities to examine alternative means of funding projects, including increased use of partnerships with other local bodies such as local enterprise companies and further education colleges. The five new structural fund programmes support those approaches. In order to make additional use of public-private sector partnerships and for the audit trail to be in place, the local authority must lead such approaches.

I will compare the situation in Scotland briefly with that in England. The Department of Trade and Industry recently circulated a guide to possible sources of match funding in the English structural fund programmes. That guide is useful in the English context, where there has been slow programme spend, quite often due to poor management and an unwillingness by central Government departments to allow the use of English departmental budgets as a source of match funding. That has not occurred in Scotland because the Scottish budget is the assigned budget—the Scottish budget is the block, which covers the co-funding available through the local government sector and other agencies. Unlike in England, there are no restrictions on the number of projects that can apply.

With the existence of the comprehensive assigned budget, the position in Scotland is clearer. Our programme administration differs from that in England. The five programme management executives and the Scottish Executive development department's structural funds division are all able to give guidance. A recent example is that of the newly established Coalfields Regeneration Trust, which, we have learned, can be used to set up project funding packages, to which it is hoped that EU funding can contribute.

I have made points quickly and briefly, convener, and I will answer any questions that the committee has time to ask.

The Convener: Thank you, Christine. We understand that you were put under a little pressure and we appreciate the fact that your statement is available.

Bruce Crawford: I do not dispute any of Christine May's comments, apart from those on additionality. She was quite right—we find that everything to do with match funding is going reasonably well, apart from the odd local authority such as Aberdeenshire Council having difficulties. There have been no problems of draw-down. I am not concerned about that issue.

Are you able to talk in some detail about the Barnett formula, how EU funds come into the Scottish assigned budget and how the Barnett formula affects EU funds? I did not want to go down the road of asking questions around that subject without clarifying that with you first.

Councillor May: The committee's questions on the Barnett formula would be better directed towards the minister.

Bruce Crawford: Can you speak about how EU funds come into the Scottish assigned budget and how they affect that budget?

Councillor May: EU funds are in the Scottish assigned budget as a single line, so that we are able to see them and track them through. That is compatible with the Commission's comments, as there is a clear audit trail. However, I know that the Barnett formula applies only to aggregate changes in UK expenditure, and not to individual budget lines. Therefore, one would not necessarily adjust the Scottish assigned budget year on year to reflect variations in and allocations to spending on structural funds alone.

It is a little difficult to track EU funds annually. For example, we heard from the Commission that it assesses additionality at the beginning of the process, following which we provide an annual report and the Commission conducts a mid-term analysis and a final review. Therefore, tracking EU funds annually is not necessarily equitable with the way in which the programmes are designed—draw-down happens.

The Convener: I need to press on, Bruce. If there is time, I will come back to you.

Cathy Jamieson: I want to clarify a point that you made, Christine. Did you say that there have been no examples of projects that got through the scrutiny process but did not go ahead because of a lack of co-financing? Did you suggest that all projects that were felt to be useful at a local level and that got through the scrutiny process had no problems with being unable to attract match funding?

Councillor May: What I said was that, given the complexities of the considerations that take place on budgetary matters within local authorities, it was difficult to find a project that had not gone ahead for reasons that were directly attributable to a lack of additionality.

Cathy Jamieson: On another point of clarification, you suggested that the way in which things are organised in Scotland allows a greater degree of flexibility. What would be the impact on local authorities if that flexibility was not there and if Scotland had to go down the same route as is followed south of the border?

Councillor May: I cannot envisage how the Scottish programme would work in those circumstances, as I have always worked within the Scottish framework. England and Wales, and England in particular, where regional development agencies are being developed, are looking to go down a route similar to that followed in Scotland. To my mind, we have always had a greater degree of transparency and subsidiarity, with programmes that are developed at a local level and responsive to local needs. We are able to measure and audit their impact locally and, while we must improve the system, the situation in Scotland is better than that down south.

Dennis Canavan: Were you taken completely by surprise when the row about additionality, or rather the lack of it, surfaced in Wales? Were there similar rumblings in COSLA circles that perhaps Scotland was not getting as much as it should out of EU funding?

Councillor May: I was taken very much by surprise by the assertion that Scotland was not getting what it should. Given my comments today, you will understand why that was so. I understand the point made by the two witnesses from Wales, particularly in respect of the timing of the objective 1 announcement in Wales, which happened in the middle of the three-year comprehensive spending review block. I appreciate their point about the need for increased spending to draw down the increased funds available and the uncertainty about what the next round of CSR will allocate to the Welsh block.

Dennis Canavan: Is there now concern in local government circles about the revelations in Wales and their possible relevance to Scotland?

Councillor May: As someone who is representing COSLA and local government at this committee, I would have great concerns if Mr Crawford's suggestion were to be taken up and the structural funds element ring-fenced, because the logic of that approach is that Scotland, which has a declining share of EU funds, would lose out.

David Mundell: My question is similar to that asked by Dennis Canavan. In the past 20 years, has COSLA made any representations either to the Scottish Office, as it was, or to the UK Government on the issues falling within the remit of our inquiry?

Councillor May: I would hate for local government to take all the credit for the Kerr-Millan agreement, but COSLA and Scottish local government take a great deal of that credit. It was through COSLA that the case was developed, argued and made, leading to that 1992 agreement.

David Mundell: But not since?

Councillor May: In the interests of brevity, I did not intend to go into further detail.

Scotland's local government plays a major role in liaising between the programme partners at a local level and local authorities, and working with the Scottish Executive and ministers in developing the proposals that are included in the UK package for eligibility for EU funds. Local government in Scotland played a large role in ensuring that the coverage that was obtained for Scotland in the Agenda 2000 round was as big as it was, given the initial rumours that Scotland's eligibility would be reduced quite considerably. At the end of the day, that was not the case and COSLA was active in promoting coverage for Scotland at all levels—through the Committee of the Regions and the Executive and in discussions with the Westminster Government.

David Mundell: Local authorities did not suggest to you that funding for non-EU activities was being reduced in some way, because of the way in which structural funding came into Scotland?

Councillor May: Not specifically, no, although I have yet to experience a budget round in local government where the local authority has not asked for additional resources from government of whatever colour, including the Scottish Executive.

The Convener: I will have to cut our discussion there, as we are already well over time. Christine, we will follow up questions or comments that members may have with you, and we look forward to your response. If necessary, we will ask COSLA to come back.

Bruce Crawford: May I make a point of clarification? It is not a question.

15:15

The Convener: Bruce, if you want to clarify something we can do that in writing. I am sorry but we do not have time. We are well over our time already.

Bruce Crawford: I will have to press this point, convener, because Christine May said that I said something that I did not say. I want to clarify that point. I did not say at any time that I thought that structural funds should be ring-fenced. I used the arguments from Wales to prosecute an argument—coming to a conclusion on these matters is the purpose of this inquiry.

The Convener: Okay. Your points have been noted on the record now.

Convener's Report

The Convener: I intend to take item 4 in private. I should have obtained members' agreement to that at the beginning of the meeting. Is that agreed?

Members *indicated agreement.*

The Convener: I ask members to note the responses from the Scottish Executive to our report into objective 2 plans and our report into programme management executives.

Members will also note the correspondence received from Romano Prodi, President of the European Commission, and, in particular, his agreement that we can invite someone over to talk to us about the drugs strategy. I hope that that will take place in mid-June.

I ask members to check their diaries and to get back to Stephen Imrie if they are interested in meeting a delegation from Norbotten and Westerbotten in Sweden on 25 May.

Finally, the Presiding Officer has referred to the committee an invitation from Clare Short MP, Secretary of State for International Development, to comment on the forthcoming second white paper on international development. I believe that Cathy Jamieson has further information that might be of help to members.

Cathy Jamieson: Yes. I noted from the letter that the time scale appears to be short. However, I understand from speaking to the relevant departments that discussions will continue over the summer and that they will be happy to receive a response from us if we indicate in writing that we wish to make comments.

The Convener: I am looking for a volunteer to prepare something to bring back to the committee. Cathy, you obviously have some knowledge and interest in the matter. Are you willing to volunteer?

Cathy Jamieson: I have an interest and would be happy to volunteer, but I will not go to the wall if there is another willing volunteer.

The Convener: Is that agreed?

Members *indicated agreement.*

The Convener: That work must be done quickly, so thank you, Cathy.

I thank those who have participated in the meeting so far. We now move into private session.

15:17

Meeting continued in private until 15:22.

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