

RURAL AFFAIRS COMMITTEE

Tuesday 25 April 2000
(*Afternoon*)

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RURAL AFFAIRS COMMITTEE

10th Meeting 2000, Session 1

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*Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD)

*attended

WITNESSES

Stuart Black (Highlands and Islands Enterprise)

Sandy Cumming (Highlands and Islands Enterprise)

Jim McFarlane (Scottish Enterprise Borders)

Julian Pace (Scottish Enterprise Borders)

Iain Robertson (Highlands and Islands Enterprise)

Irene Walker (Scottish Enterprise Dumfries and Galloway)

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ASSISTANT CLERK

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LOCATION

Committee Room 1

Scottish Parliament

Rural Affairs Committee

Tuesday 25 April 2000

(Afternoon)

[THE CONVENER *opened the meeting at 14:07*]

The Convener (Alex Johnstone): Ladies and gentlemen, it is my pleasure to welcome you all here today. In my opening remarks, I shall refer to something that is not on the agenda today—the visit to the Highlands and Aberdeenshire that the committee undertook during the Easter recess.

I take this opportunity to thank the members of staff who went to great lengths to organise the trip. I also thank the members of the committee who undertook the responsibility of driving. I am sure that that was an incredible burden. Until we were up there, we did not realise exactly how far—and, at times, how quickly—we would have to travel between the relevant points. It was a very useful visit and I repeat the committee's thanks to all who contributed to its success.

Rural Employment

The Convener: Item 1 on the agenda is the inquiry into changing employment patterns in rural Scotland. I have beside me Professor Mark Shucksmith, who is the inquiry adviser. The consultation period for this exercise ends on 18 May, but to make best use of our time we will hear from some of the major players in the inquiry.

I welcome our witnesses for this item. From Highlands and Islands Enterprise we have Iain Robertson, the chief executive, Stuart Black, the head of economics, and Sandy Cumming, the director of growing businesses. Jim McFarlane is the chief executive of Scottish Enterprise Borders, but is here today as chair of the SE rural group. Is that the Scottish Enterprise rural group?

Jim McFarlane (Scottish Enterprise Borders): Yes.

The Convener: Thank you. We also welcome Irene Walker, of Scottish Enterprise Dumfries and Galloway, and Julian Pace, who is the assistant to Jim McFarlane. We will hear opening submissions from Iain Robertson and Jim McFarlane before we begin with our questions.

Iain Robertson (Highlands and Islands Enterprise): Convener, thank you for inviting us to address the committee on an extremely important topic for Scotland and especially the Highlands

and Islands. I will speak for a couple of minutes and hand over to Stuart Black; Sandy Cumming will sum up.

Highlands and Islands Enterprise, with its network of 10 local enterprise companies, is a rural development agency. LECs are very rural and their chairmen and members are very much players in the local scene. Indeed, one of the members of the Rural Affairs Committee was, until recently, a board member of one of our smallest LECs.

Our approach is very flexible; as in Scottish Enterprise, the local business leaders who lead the network are unpaid. Highlands and Islands Enterprise provides the strategic overview and supports the LECs with the economies of scale that a bigger network can supply to small companies, such as legal advice.

The HIE network's overall strategy is based on three simple objectives: strengthening communities, developing skills and growing business. Those objectives are set against the distinctive culture of the area and its important environmental background and value. The most essential aspect of our strategy is the interdependence of sectors. By assisting business, we can help communities survive; by sustaining our environment, we are able to sell fish, food and quality produce. However, we recognise that the same interdependence exists throughout Scotland.

The Highlands and Islands has fragile areas such as the western isles which have been losing their population and remain the most intractable parts of our rural areas. Our annual budget from the Scottish Executive, which is about £78 million to £80 million, is allocated with a bias towards those areas, which means that Inverness and the surrounding area gets less per head of population than the western isles, Caithness and other areas of outstanding need. This happens under what we call our formula share.

Within our network, we are fortunate to be able to switch funds to areas of need as requirements arise. Although we start the year with an allocation to each area under the formula share, we can move resources from one LEC area to another to assist any emergency such as the Barmac rundown or closure of defence bases. The LECs have been very good at trading with each other over the years to help with emergencies in each area.

In all we do, the emphasis is on giving excellent value for money wherever possible. Reviews by organisations such as the National Audit Office have consistently concluded that the HIE network represents value for money.

The key challenges for our rural areas are

improving job creation and job opportunities and raising incomes for our people. We must capitalise on the few long-term improvements that there have been in many parts in the past few years, such as the trend in population growth, which, although shallow at the moment, is very important. However, that trend has still not reached the western isles.

We are handling the change in traditional industries and sectors that is taking place around us—in farming, in crofting and in fishing. We are also developing key growth centres throughout the area—in IT-based activities, biotechnology, manufacturing, wherever possible, and tourism. In everything we do, the key is to provide incomes for the people in our villages. By diversifying the economic portfolio of the Highlands and Islands, we can sustain villages, keep children in schools, keep families in the area and hedge the region's economy against downturns in any one area. In past, downturns in areas such as aluminium smelting have cost us dear. I now hand over to Stuart Black.

14:15

Stuart Black (Highlands and Islands Enterprise): Good afternoon. This may seem a bit back to front, but I would like first to focus on unemployment, because employment trends statistics tend to be a bit out of date. The most up-to-date statistics that we have are for unemployment, which is the other side of the coin.

The first chart in the handout shows that the economy of the area has been improving over the past few years. Unemployment, which in 1996 stood at well over 9 per cent, is now down to about 5.5 per cent on the claimant count. Members will notice that seasonality is a factor in our unemployment pattern—in other words, unemployment is much higher in the winter than it is in the summer. That is a consistent trend across rural areas in Scotland and one of the issues in which the committee is no doubt interested. There is also a wide variation in unemployment rates around the Highlands and Islands, which is masked by the average figures. In some areas, such as Sutherland and Campbeltown, there are unemployment rates of up to 10 per cent. In Shetland and Lochgilphead, by contrast, the rates are much lower—2 to 3 per cent on the claimant count. Circumstances vary widely in the Highlands and Islands, which is made up of very small local economies.

The next chart relates to seasonality. Members will notice that there are very stark patterns of seasonality in unemployment in certain places. The red line on the graph relates to Skye and Ullapool—the west Ross area. The black line relates to Shetland. Members will see how

seasonal is unemployment in Skye and west Ross; that reflects the importance of industries such as tourism, agriculture and forestry. Again, that is a key issue for us.

The next slide shows the employment structure of the Highlands and Islands compared with Scotland as a whole. In the next few slides, the figures for the Highlands and Islands are represented in blue, whereas those for Scotland as a whole are represented in yellow. It is important to mention that this chart excludes the self-employed, as it is very difficult to obtain accurate information on the number of self-employed people and what they do. The census is the best guide, but as the committee knows that is carried out only every 10 years. Suffice it to say that self-employment accounts for about 15 per cent of our work force, compared with 9 per cent in Scotland as a whole. In the islands, the figure for self-employment can be up into the mid 20s. Self-employment is a key feature of rural areas.

As members will see from the chart, the primary sector—agriculture, fishing and forestry—accounts for well over 6 per cent of employment. If we were to include the self-employed, the figure would be between 9 and 10 per cent. Manufacturing industry is less significant in our area, and is tied up with the oil fabrication sector. I am sure that the committee is aware of the particular importance of Barmac to the Highlands and Islands. The other manufacturing industries in the region are often related to the primary sector and include fish processing and forestry processing. Construction is also more important in our economy than in Scotland as a whole, as are distribution, hotels and restaurants—the tourism industry. If I were to do this chart for an area such as Skye, it would show that upwards of 30 per cent of people are involved in that industry.

Banking, finance and insurance, which have been growing in Scotland as a whole, are less important in the Highlands and Islands. That may be an issue for the committee to focus on. There has been growth in employment in this sector in many parts of Scotland, but not so much in rural areas. However, through the telecoms initiative we have been trying to spread industries of that sort into rural areas.

From the right side of the chart it can be seen that public administration is important in the Highlands and Islands, and more so than the Scottish average. That gives a picture of the employment structure as a whole. The primary sector is important, as are the public sector and tourism.

The next chart looks at employment change. You might be surprised to see the boom in the primary sector. That is a little misleading. It basically focuses on employees only. Some things

have been going on in the primary sector, such as farmers including wives as formal employees in that industry, which tends to make the sector look larger than it is. I will return to that issue in a minute. Overall, you will see that the trend in the Highlands has been one of some growth in the service industries, particularly in distribution, hotels and restaurants. There has been a decline in manufacturing, which is largely related to Barmac and the oil fabrication sector, which was running at a higher level of employment in 1991 than in 1997. There has been some decline in public services with, for example, the closure of military bases in some of our islands.

The pattern in agriculture might have been a bit misleading. The number of full and part-time occupiers has been falling. The number of full-time hired personnel has been falling, but there has been growth in part-time employment in the agriculture sector. Looking across all employment, including self-employed occupiers, total employment has fallen on a full-time equivalent basis. That is the key message from this chart.

In your report you are interested in employment change by type. The next chart illustrates how the main growth at the Scotland and Highlands and Islands levels has been in female employment and in part-time employment. That is a consistent trend across the Highlands and across Scotland. There has been some decline in the number in full-time employment.

One of the key differences between the Highlands and Islands and Scotland as a whole is the importance of small firms. The chart that I have provided shows employment by company size. Thirty per cent of jobs in an area such as the Highlands are in firms with fewer than 10 employees. That compares with 20 per cent at the Scotland level. We have a dominance of small-business employers in rural Scotland, and in the Highlands and Islands in particular.

You mention new business formation in your paper. Highlands and Islands has a higher rate of new business formation than Scotland as a whole. Across the country the rate of new business starts has fallen, partly due to unemployment coming down but, generally, the picture is one of a vibrant new business environment in the Highlands and Islands.

You are also interested in weekly earnings. The figures bear out your argument that the rural economy tends to comprise lower-paid employment. For males, the pattern is approximately 85 per cent of GB average earnings. It is similar for females.

To conclude, there have been some areas of rapid employment growth in the Highlands and Islands. One of them has been information and

communication technology. You may be aware of the telecoms initiative, which was put in place in the late '80s and early '90s. It had a target of 500 jobs by 1999. Our statistics at the end of the year show that more than 1,800 jobs were created in that industry, in areas such as internet support, tele-services centres and back offices. There have been areas of rapid growth in employment in the Highlands, as well as areas of decline. With that, I will pass over to Sandy Cumming.

Sandy Cumming (Highlands and Islands Enterprise): Thank you, and good afternoon. I would like to touch on our highly integrated approach to rural employment. Our basic philosophy is that we are here to grow businesses, develop skills and strengthen communities. Why do we do that? It is fundamental to our approach. We understand that strong communities require economic prosperity through business activity, that business growth depends on the quality of work forces with high skill levels, and that those skill levels come from communities that reward personal achievement and advancement.

The need for us to work alongside communities is fundamental. I speak today as someone who was the chief executive of a local enterprise company. One of our main strengths in the Highlands is that our LECs work very closely with the community and with the voluntary sector.

Another message that we want to convey today is that we play to our strengths. We fully recognise that the people of our area are our greatest asset. As Iain Robertson has already mentioned, we have a wonderful environment and enjoy a good quality of life. We have excellent schools, a low crime rate and a culture that is very important to people and for attracting visitors to the area. A modern IT infrastructure has provided us with real advantage in recent years, reducing the difficulty of distance from the market.

As we develop rural employment, we seek opportunities. Sometimes, the successes seem rather unusual, in the sense that they defy what is in some academic textbooks. I will give a couple of examples. It seems incredible to some people that Norfrost operates in the north of Scotland, producing white goods in such a remote part of the UK mainland—but there we have it; it is a success story, employing many people.

In the Highlands, we have enjoyed huge levels of inward investment success over the past few years, particularly in the manufacturing sector. Examples include Inverness Medical, which now employs several hundred people. A very unusual example is ATC Cosmetics in Easter Ross. It produces nail varnish, employing several hundred people.

In the past two years, we have attracted 2,500

new jobs into the Highlands in inward investment. The area has been recognised by Locate in Scotland as having a competitive inward investment opportunity for certain project sizes. It is also important to help the local business base, and we do that: we invest in local businesses as and when the opportunities arise.

Local delivery is fundamental to exploiting rural employment opportunities. The LECs in the Highlands and Islands have proved ideal delivery mechanisms. They are very flexible by nature and there has been a great deal of success throughout our areas. Small size is by no means a disadvantage. I can give the example of Skye and Lochalsh Enterprise, which serves a community of only 12,000 but which has consistently been one of our highest-performing LECs. It is doing a great job, especially with Investors in People. At one stage, it led Scotland in the league table of Investors in People recognition.

In the past nine years, we have consistently averaged at about 3,000 for the number of jobs created through the HIE network. Those of you who recognise the accent will know that I am from Ross and Cromarty. I would like to talk briefly about my native patch. My background is in farming and I have a degree in agricultural economics. I was brought up on a farm in Ross-shire, so I am well aware of the importance of the agricultural sector.

Over the past 30 years, oil-related employment has become fundamentally important. Iain Robertson has touched on the difficulties facing Barmac, but it is still a very important employer. Agriculture remains important in Ross-shire, but there has been a steady growth in small manufacturing companies. Two examples of carbon fibre manufacturing in Muir of Ord are Grants of Dalvey and SGL Technic.

The greatest growth in new employment opportunities in Ross and Cromarty in recent years has been in tele-business. By the end of next year, 1,100 jobs will have been created in a period of four years. It is the most important new sector of the economy. In Alness, which was particularly badly affected when the Invergordon aluminium smelter closed, the industrial estate now employs more people than were previously employed at the smelter—a staggering achievement in a short period of time.

To move north, I can provide a few statistics about Orkney. It remains one of our most important agricultural communities, with strong activity and output. Some excellent, high-quality food and drink is produced there, including Orkney cheese and Orkney beef. The aquaculture sector is of increasing importance, including Orkney smoked salmon. Oil has come into the Orkney economy and remains an important source of

income and jobs for the community. The other important industry in Orkney is the jewellery sector. Orkney now has the largest jewellery industry north of Birmingham.

The key lessons from our approach to rural employment are based on the thesis that many forms of economic activity are now possible in the Highlands and Islands which were not possible even 10 or 15 years ago. We recognise fully the continuing importance of the primary sector, even though there are serious problems and long-term contraction. We fully believe that the locally based enterprise network is key to the delivery of the range of potential development opportunities. The fundamental approach is the diversification of employment opportunities. In many ways, it is a bit like the old crofting approach: pluri-activity and recognition of the need to have multiple sources of family income in rural areas.

14:30

The Convener: Thank you. We move swiftly on to Jim McFarlane, whom I invite to address the committee.

Jim McFarlane: Thank you, ladies and gentlemen. I am here today as chair of Scottish Enterprise rural group, but I am also chief executive of Scottish Enterprise Borders. My colleague, Irene Walker, is chief executive of Scottish Enterprise Dumfries and Galloway. Julian Pace is head of policy and research at Scottish Enterprise Borders and is a member of the SE rural and European groups. We are delighted to take part in the committee's investigation and look forward to working with members during their deliberations.

I have numbered the pages of my presentation for ease of reference. It will cover three areas. First, I will outline the role of the Scottish Enterprise network. I will then provide our views on the changing nature of employment patterns in rural Scotland. Finally, I will give some examples of how the Scottish Enterprise network is facing up to the challenges.

As members will know, the Scottish Enterprise network is the economic development agency for the non-Highlands and Islands area of Scotland. We operate internationally, nationally and locally. Our international arms are Locate in Scotland and Scottish Trade International. At local level, there is a network of 13 local enterprise companies. Scottish Enterprise's budget in 1999-2000 was some £455 million. International, headquarters and national activities took up some 29 per cent of that budget. Seventy-one per cent was allocated to the local enterprise companies.

Scottish Enterprise's mission statement is:

"To help the people of Scotland create and sustain jobs, prosperity and a high quality of life."

We have a strategy for our area, which was approved in January 1999 and was the product of widespread consultation. The overarching aim of the SE strategy is to achieve economic growth and promote social inclusion.

The strategy has four key goals. The first is to build an economy that is characterised by innovative and far-sighted organisations. We aim to build companies that display strategic thinking, are far-sighted and invest in their people. The strategy also aims to promote positive attitudes to learning and enterprise, developing the skills base of our country. The strategy is geared towards developing Scotland as a competitive place, ensuring that we have the business infrastructure to facilitate inward investment and the expansion of our indigenous industrial base. Finally, we want an economy that is inclusive, in which all the people of Scotland can share.

We believe that those goals define the fundamental characteristics of successful economies. It is SE's aim to operate with the grain of the market and to intervene where we believe we can make a clear difference. Such intervention is both reactive and proactive.

The strategy vision for Scotland is of a successful economy which is both prosperous and inclusive and of a country that is keen to take on new opportunities, is positive in outlook and approach and is confident in its abilities.

We believe that the SE structure and strategy is applicable to both urban and rural Scotland—in particular, the LEC network—but we recognise that rural operations may need to be delivered and applied differently and that there are distinctly rural dimensions to economic development. Many rural areas are characterised as having a vulnerable employment base and weak market conditions.

Invariably, in rural Scotland there is no active private property market. Many rural areas also have a fragile demographic base. My area, Scottish Borders, for example, has the highest rate of out-migration of any area of the UK outside the Highlands and Islands. Additionally, in rural areas there are access difficulties and problems of poor public transport.

The SE rural group was established in April last year to ensure that the network anticipates and develops responses to rural issues in the context of our national network strategy. The membership of the rural group is drawn from local enterprise companies that have a rural interest and from rural Locate in Scotland. We have a representative from Highlands and Islands Enterprise—Sandy Brady—and, more recently, we have received representations from the Scottish Executive rural

affairs department. The group plays a key role in disseminating best practice and entering into active dialogue with other Scottish Enterprise sector teams and with external bodies that have an interest in rural affairs. Currently, we are engaged in close dialogue with the Convention of Scottish Local Authorities on best practice in rural employment initiatives.

So, what is our view of changing employment patterns in rural Scotland? The difficulty that we face, as a non-Highland area, is defining what is rural. The definition is less clear than in the Highlands and Islands. Some of the pointers that I am about to give draw heavily on South of Scotland data. We have a single South of Scotland European objective 2 plan. The two enterprise companies and the two local authorities were jointly engaged in the preparation of that plan, and many of the data that I am about to deal with come from the submission that was made to the Scottish Executive and the European Union.

If South of Scotland is compared with Scotland as a whole, it may be recognised that there is a distinctive employment pattern in the area. The region is regarded as rural but, ironically, in comparison to the national situation it has a strong manufacturing base. That base is particularly strong in the Scottish Borders, the foundation of which is predominantly textiles and electronics. Those are two sectors in which we have experienced particular difficulties over the past 18 months or so.

Over the past few years, employment in the UK has grown at something like 4.2 per cent, although in Scotland it has declined by 1.6 per cent. The decline in employment in South of Scotland is even more dramatic than that in Scotland as a whole. Let us consider what that means for particular sectors. There has been decline in the primary sector; much of our experience mirrors that of the Highlands and Islands. As I have mentioned, there have been particular difficulties in the textiles sector. We believe that, over the next few years, that pattern of structural change is likely to continue. There are some prospects for growth, in Dumfries and Galloway in particular, including increases in the production of rubber plastics—primarily at Du Pont—and significant increases in food processing.

What is the pattern of employment by gender? Full-time male employment in South of Scotland has declined by some 16 per cent and a pattern of part-time employment has emerged. That has been the experience throughout rural Scotland. All our labour market research leads us to believe that the decline in full-time employment will continue. The process of structural change, particularly in the manufacturing and agricultural sectors, will continue. We will continue to be

dependent on those key sectors

We also have an aging population and an aging labour force. We must address that issue. I will mention one or two initiatives before I close. High levels of out-migration are a characteristic of South of Scotland, as are low earnings. We believe that, in South of Scotland, poverty is as much an issue for people in work as for those who are unemployed. The relative overall low levels of unemployment mask a much more difficult economic position.

However, there are some promising signs. The level of new business starts in South of Scotland is good. Across the area there are some 600 new starts per annum and there are healthy survival rates. Our area probably has one of the highest start-up rates per head of population in Scotland, and we certainly subscribe to the evidence that rural areas have higher levels of self-employment than urban Scotland.

Where do we believe new employment opportunities might come from? Food is a growth sector. All the current work with the food group in Scottish Enterprise leads us to believe that we must do more to develop the supply chain in the agriculture sector. Tourism and forestry are also growth sectors.

The higher education sector is developing in South of Scotland, with the Heriot-Watt campus at Galashiels and the amalgamation of Heriot-Watt University with the former Scottish College of Textiles. The Crichton College campus in Dumfries also offers new prospects.

Technical textiles—the non-apparel side of textiles—is also a growth area and we have had some successes in that area. For example, Replin Fabrics is a company in Peebles that employs 120 people. It has diversified away from woven textiles into flame-retardant fabrics and manufactures fabrics for companies such as Boeing, Virgin Atlantic and most of the major airline companies throughout the world. The key objective of local economic strategies, both in the Borders and in Dumfries and Galloway is to try to diversify the employment base and move away from the current and historical reliance on a few vulnerable sectors.

I will give some examples of how those challenges have been met. Just over a year ago, a new joint economic strategy for the future was launched in the Scottish Borders—the new ways strategy. It is not a strategy for Scottish Enterprise Borders, but for the whole community. It involves the council, the local tourist board and the private sector and was developed in the aftermath of major manufacturing difficulties, such as the closure of Viasystems and the decline in the textiles sector.

In dealing with large-scale redundancies, we developed some home-grown initiatives to encourage and assist those most directly affected by redundancy. The Borders training and employment programme is a support mechanism whereby we provide training and wages support to small firms that are taking on redundant workers. Some 400 workers affected by redundancy have benefited from that programme.

Training for tomorrow is a parallel programme aimed at providing training support for those who are likely to suffer redundancy or for those who have been scheduled with redundancy notices but have not yet left their employment. That project aims to provide new forms of employment training, advice on interview techniques and so on. We find that many of the people who have worked in the textile sector have been with their employer for 20, 25 or sometimes 30 years. It can be quite traumatic to have to look for work and compete in the labour market after such a long period of employment.

It is not all gloom and doom in textiles. The high-value end of the textile sector in the Scottish Borders, including the cashmere industry, which now employs the majority of textile workers, is enjoying something of a boom. We are working actively with the industry to promote the product as cashmere made in Scotland and on skills training—particularly on trying to attract young people into the industry. We are very active in encouraging support for our indigenous business base—Keltek Electronics, Signum Circuits and Ass-tec are all home-grown companies in the electronic sector and are expanding. New ventures business start-up support is a key element in how we diversify our activities. Property initiatives have a part to play in that.

I now hand over to Irene Walker, who will give some local examples from Dumfries and Galloway.

14:45

Irene Walker (Scottish Enterprise Dumfries and Galloway): I have listed a number of examples. The joint economic forum is a new gathering of private and public sector voluntary organisations, including the Scottish Executive. It has been set up to monitor our joint economic strategy, which is about a year old. We continue to have local initiatives to tackle pockets of highest unemployment. I could be even more dramatic and cite the gender split—the overall unemployment figure for Upper Nithsdale is 12.8 per cent, but it is 17.6 per cent for males.

We have been pleased by the way in which our specific integrated regeneration projects have gone; I am talking about regeneration as part of

our inclusion agenda. One example of that is Wigtown booktown, specialising in antiquarian books. Within about two years, 17 bookshops have been set up as part of the project. Our small towns initiative, which covers Stranraer, Cairnryan and Portpatrick, is going particularly well.

Groundbase is a trading name for our LEADER II initiative in Dumfries and Galloway. Since 1995, £5 million has been invested under that initiative. The private sector has matched that to the tune of £10.6 million, which is a good sign of the success of the LEADER project. Another £2 million has come in from public agencies apart from the council and ourselves.

We are dealing with a declining and aging population and believe that we should develop active retirement communities. We have identified an opportunity in the care sector and are working with the rural team of Locate in Scotland specifically on that. Jim McFarlane has already mentioned the Crichton university campus, which is a unique presence in the south-west. We are spreading the word on e-commerce to all sizes of business, especially our 5,500 small businesses employing fewer than 10 people.

Jim McFarlane would like to conclude.

Jim McFarlane: All examples that we have heard about so far have been in the south of Scotland, but I have also listed rural initiatives from elsewhere within the SE network area. That provides some flavour of our overall activities in support of rural areas.

I want to finish by talking about key lessons that are being learned through the work of the Scottish Enterprise rural group. We believe that structural change in rural areas requires an integrated effort. Partnerships and an holistic approach are absolutely essential—business support, skills, inclusion strategies and, in particular, child care all have a part to play.

The crisis over the past 18 months has led to a sharpening of what we term our client management approach to businesses in our area. We have been trying to get closer to the management of individual businesses and to understand in detail what issues each business faces. In the case of foreign-owned businesses, we have tried to work proactively with local management to ensure that when reinvestment from the parent group—wherever that is based in the world—is a possibility, the local plant is capable of competing with sister plants elsewhere.

Infrastructure and connectivity are key issues in rural Scotland. Property, transportation and information and communications technology provide the means of breaking down locational disadvantage.

It is clear that the public sector has a key role to play in relation to each of those issues. As I pointed out, private developers are not inclined to invest in property in rural areas. Therefore, we must accept that there is a key role for the public sector in providing new accommodation for small businesses and in supporting our indigenous business base when it needs to expand.

The Convener: Thank you. I will start the questions and then we will progress around the committee.

We glibly use the term “rural Scotland” and today we are lucky enough to have representation from two groups, whose experiences come from opposite ends of the country. What do the witnesses think of the term “rural Scotland”? Do they think that they share common experiences, or are the two ends of the country different?

Iain Robertson: I will kick off and try to answer that question, convener.

Our view is that there are many rural Scotlands, which display different symptoms and have different needs. In the Highlands and Islands Enterprise network and, as I understand it from Jim McFarlane's comments, in the south of Scotland, we try to treat the symptoms of rurality within each area according to that area's needs. In short, in Highlands and Islands Enterprise, we do not believe that there is one magic solution for the whole of Scotland. There are different solutions and a multiplicity of schemes from which each area ought to be able to draw, with guidance, funds, advice and resources suitable to that area's needs. The key always is to motivate the local community to help itself. We have tried to leave in place in our area a legacy that enables motivated and capable communities to take advantage of what is, after all, one of the few times in history when a raft of programmes and policies is available to them. It is important that we leave that legacy for the future.

Jim McFarlane: I support Iain Robertson's comments. There are different dimensions to rural problems in different parts of Scotland. Nevertheless, they have common characteristics.

A local approach to economic development is vital. That approach almost has to begin with an understanding of how the economy works and what businesses exist within particular areas. Recently in the Highlands, there has been a tendency to view rural Scotland as consisting of areas where problems do not exist, from the economic development standpoint. Over the past two or three years, we have found that that view masks, in some cases, severe and vulnerable local economies. We must develop that understanding and have a better approach to ideas that work, from which lessons can be

learned and applied in different parts of the country.

The Convener: To follow on from that point, given that you feel that there are different experiences in your home areas, how do you think that your experience applies to the lowland areas that lie to the north of the central belt? Is that an entirely different area again, or is there some commonality?

Jim McFarlane: There is certainly commonality in the current difficulties in agriculture and in those specific problems that are to do with structural change, such as the decline in fishing in parts of the country and the decline in textiles in my part of Scotland. We must ask ourselves whether we can upskill the workforce, diversify the local economy, attract inward investment and improve the infrastructure in our rural areas to allow those parts of the country better to compete for new employment opportunities.

Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD): Jim, you talked about the difficulty of defining rural Scotland. The statistics that you quoted on behalf of Scottish Enterprise focused on the Borders, which takes us to the nub of the problem—we do not have statistics for rural Scotland. I am worried about how we can talk about impacts if we do not have the statistics available.

I will pick up on a point that Iain Robertson raised about the difference between the two organisations. Highlands and Islands Enterprise has a social development remit and Scottish Enterprise does not. In west Aberdeenshire, there are a number of community development companies, which can get the project funding to which Iain Robertson referred. However, because they are in the Scottish Enterprise network and not in HIE, they find it difficult to get core funding. There could be a tremendous amount of social development and employment development, but the companies cannot get their hands on the funding. Scottish Enterprise has £455 million. Should the remit not be the same for our rural communities? If you are lucky enough to be in the Highlands and Islands you can access the support, but you cannot if you are in rural west Aberdeenshire.

Jim McFarlane: The rural group has considered the social remit of Highlands and Islands Enterprise and Scottish Enterprise's apparent lack of one. We believe that, in legislation, there is not a great deal that HIE can do that we cannot. The problem is more one of overall resources and priorities. Scottish Enterprise sees itself first and foremost as an economic development agency. Difficulties in project appraisal will always arise if any investment decision that we have been asked to make does not have a clear economic benefit.

In my presentation, I made the point that, by their nature, rural problems require an holistic approach. We must become better at working in partnership with others, such as councils, the voluntary sector and local tourist boards.

Irene Walker: As Scottish Enterprise follows a stronger inclusion agenda, I think that we are seeing changing times. I believe that the work that we are all doing under the banner of community planning, where we work with the local council and the local health boards, is another way in which to ensure that we maximise other sources of funds, so that it is not the case that organisations in one corner of the country can get funds from one source but not from others.

Cathy Peattie (Falkirk East) (Lab): Iain Robertson spoke about working with communities to motivate and educate. That is the experience of the social element of the work that you do. If we are going to improve anything, it is important that all the partners are at the table. We must start by motivating and educating communities. It is not enough to say that it is difficult to work on that unless there is economic investment. If we are working with communities, that is economic development. Other partners, such as the voluntary sector, are deeply involved in training and economic development in some projects. How has Scottish Enterprise explored that in other areas?

Jim McFarlane: Irene Walker mentioned the inclusion dimension to our activities. As for skills development, we believe that projects such as child care initiatives are a key element in how we improve the employment prospects of individuals and communities. I can highlight that best through examples from my area. Burnfoot, a housing estate in Hawick, has a local primary school—that school was one of the first community primary schools in Scotland. Together with Borders College, we helped to fund a computer suite within the school as part of our commitment to the community. That facility is available not only to pupils but to the wider community out of school hours. We have supported similar local information technology awareness and training groups in places such as Eyemouth.

The Borders is similar to the Highlands in some respects, as we too have a dispersed population. We will always take that into account in our funding priorities.

Cathy Peattie: Do you see the voluntary sector as a partner in delivering that?

Jim McFarlane: Yes. There is a very active rural partnership in the Borders, which has benefited from LEADER II funding; we support the project financially.

Lewis Macdonald (Aberdeen Central) (Lab):

Jim McFarlane mentioned the importance of skills development. I would be interested to hear what both agencies think are the challenges that are faced by people in rural areas in training and acquiring skills. What can we do to address those difficulties?

15:00

Iain Robertson: The most significant challenge in rural areas is access: access to training, problems caused by distance and cost of access. We have appeared before several committees in the past and this issue is so important that it has come up every time. Distance-shrinking technology is one of the things that is helping us. As you know, the University of the Highlands and Islands is bringing lifelong learning possibilities to people who are interested in furthering their higher education. However, that is not enough. We must act at every level. We are investing in a range of community resources, such as outreach centres, which will enable people in every community to reach a computer and access training from one of the colleges or private sector providers.

The local enterprise companies are useful because they understand the needs of the community. Wherever possible, our LECs provide support for particular circumstances, such as funding for access—providing taxis or bringing training days together—at the local level to suit particular communities. There is no one model for all areas.

A range of community facilities has been built up. The best example of that is Lionacleit school in the western isles, which comprises not only a swimming pool, a primary school and a secondary school, but a learning centre—we are also working on adding an information technology centre. We have just bought some ground and we are hoping to put a small advanced office there, to allow us to take some of the kids straight out of the school and provide them with work opportunities in the local area.

Integration at a local level, flexibility and a strong awareness that transport costs are a significant problem—as members will know, that affects everything that people do in rural areas, particularly in the Highlands—are key to addressing those issues.

Jim McFarlane: One of the characteristics of the Scottish Borders is that a high proportion of our young people enter higher education. That means that they tend to move out of the area in order to be educated; unfortunately, not many move back. Manufacturing continues to be an important part of our economy, but we have an aging work force. That presents difficulties when

we are working with the textile sector, for example, to encourage companies to move into high-technology, high-fashion, high-quality areas, where price competitiveness is less of an issue. We must convince local industry of the importance of training and encourage it to make a commitment to invest in its work force.

Iain Robertson mentioned distance, which is a particular problem in a large area. In Eyemouth, there is a boat builder who employs about 40 people. He is keen, because of his aging work force, to bring young people into his business. We discussed with him modern apprenticeships and where young people would receive their off-the-job training. Galashiels is more than two hours away by public transport, and subjects such as carpentry and so on are more related to construction than to the skills that his business requires. We are casting around to find ways in which to encourage the company to go down that route. The best place for those young modern apprenticeships is probably at Babcock Rosyth, and Scottish Enterprise Borders will probably have to subsidise any training to support that company.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): Mr Robertson was talking about transport problems and the use of new technologies to get over them. Could you tell me what difficulties you are encountering in establishing the telecoms infrastructure in rural areas? Even in the new high-tech age, the best facilities are still in the urban areas, and you are in danger of lagging behind in the new technology.

Iain Robertson: As you know, we live in a world in which the pace of change is so incredibly fast that a technology has no sooner been installed than somebody else is coming up with another one. In rural areas throughout Scotland, it is not enough just to have an integrated services digital network; a battery of other technologies is coming along. We cannot invest in them all for all areas, so we must try to select the ones that we think will be appropriate.

Perhaps I can illustrate the situation best by citing what we did in the Highlands in 1990-91. During that time, we went ahead with the integrated services digital network telecom initiative with British Telecommunications. We invested £5.9 million and BT invested £25 million—a considerable contribution from the private sector. In 1994-95, we managed to secure European funding to assist us with a mobile telephony initiative, but that is still not finished, as it was held up in the consent process at the European end.

By the end of this year, 95 per cent of the A roads in the Highlands should be covered by mobile telephony. As mobile telephony was also going to be a likely vehicle for an extensive range

of internet and other resources, we think that we got that one right and that we will have cover.

The question now is whether we should be considering asymmetric digital subscriber lines for our area. Should we also be considering satellite technology? At the moment, satellite technology is good for communication one way, but not the other. The development bodies must keep an eye on these technologies. We are worried, as each of the technologies involves an expensive roll-out. Where are we going to get the funding for that roll-out?

The obvious area to be considering now is broadband technology; through the University of the Highlands and Islands, we have broadband technology in a loop that extends to the western isles and connects all the colleges—including Perth College, which is foresightedly part of the University of the Highlands and Islands. Broadband technology will link into those areas. For example, Lionacleit school will be wired up for broadband technology, which will be very useful.

We must keep abreast of technology. We hope that we will be able to use money from our post-objective 1 transition funding special programme to take advantage of the next technological change. We are talking about infrastructure that is as important as, if not more important than, roads in an area that still has far too many miles of single-track and difficult roads. We must keep up with this other technology at the same time, and there are no easy funding solutions.

Irene Walker: Our role is to influence and put pressure on BT and other operators. The coverage in the south-west has improved over the past five years, but there are still blank spots. There are haves and have-nots, so we must continue to ensure that the coverage is 100 per cent. We have had the benefit of the development of Crichton College, which has allowed some upgrades. In the vicinity of the M764 towards Dumfries, people are able to benefit, but there are other, more remote parts, which have no coverage. Our role is to influence and to apply pressure.

Jim McFarlane: I agree with Iain Robertson's views on this subject. There is much talk about the potential for information technology to cut down distance and to make rural areas less isolated, but that depends fundamentally on the infrastructure. If the investment plans of the telecom companies are likely to be biased toward more populated areas because that is where the market is, we have to be concerned about the extent to which rural Scotland will suffer.

Iain mentioned the broadband educational infrastructure in the Highlands. When Heriot-Watt University merged with the Scottish College of

Textiles, Scottish Borders Enterprise, with European Union support, extended the broadband higher education network to the Galashiels campus at a cost of almost £1 million. Businesses within a corridor on either side of that can benefit from that connectivity. When the Crichton campus was developed, the public sector heavily subsidised the costs of the broadband connections there.

There are significant blind spots in the mobile and cellular telephone networks in the south of Scotland. Iain mentioned the benefits that the Highlands enjoyed under the objective 1 plan. As grateful as we are for objective 2 status in the Scottish Borders and Dumfries and Galloway, over the next five years objective 2 funds will amount to something like £44 million, which I do not believe is adequate to deal with the problems. Furthermore, it is the Commission's view that the priorities of that funding should be the softer aspects of business support rather than infrastructure. The provision of infrastructure in the non-Highlands area is a problem about which we are very concerned.

Alasdair Morgan: You referred to a BT investment in the Highlands and Islands some years ago. BT was virtually a monopoly then, but the situation has changed. Has the fact that firms have to compete for every customer—by definition, there will be fewer customers in rural areas—made any difference to their willingness to chip in money?

Iain Robertson: It is a strange thing. BT has stayed with us fairly consistently and we are still talking with it about future developments. We have it in mind that if we cannot get anywhere with BT—if it cannot extend its networks on its own—we can do what we did with the mobile telephony network. We brought Cellnet and Vodafone together on that. Those two companies were far-sighted enough to see the benefit of combining their resources for rural areas. We may have to do something similar for other aspects of the telephony network. At the moment, BT is the predominant provider, and Thus, which was Scottish Telecom, provides the broadband links into the western isles.

There is competition. I think that, as BT finds itself stretched in markets, it will regard rural areas throughout Britain as a potentially very important market. Other telephone providers such as Mercury went so far, but did not go out into rural areas because they dealt with volume markets. Now, however, Orange has come as far as Inverness, and the coverage along the Aberdeen road is quite good—that was introduced on an unassisted basis. In this competitive market, it will be interesting to see which companies are prepared to work with us in rural areas. I certainly

expect that BT will be one of those companies.

Lewis Macdonald: I want to follow up from another angle a point that Cathy Peattie raised about the social remit of Highlands and Islands Enterprise. I was interested in Jim McFarlane's answer. One way in which to interpret that answer was that he did not think that it made much difference—perhaps that is too hard an interpretation. I would be interested to hear Iain Robertson's view on whether there is a case for a social remit for rural Scotland outside the Highlands.

15:15

Iain Robertson: I tend to agree with what Jim McFarlane said. One of the beauties of the model of local enterprise networks is that LECs have a lot of flexibility. We set LECs very tough annual targets and give them budgets that are tailored to their business plans and local need; however, their discretion in how and when they spend their money is quite wide. A LEC that uses its brain and some financial engineering can apply its money in many ways; the budget is like a keyboard on which LECs can play a variety of tunes and, provided that they do not play out of tune as far as the rules are concerned, they have tremendous opportunities to assist areas.

Perhaps the issue is more about focus and intent; there is no doubt that the newspapers find the inward investment aspect of our operation far sexier than the community aspect. However, our network has large resources to attract and encourage community effort. On the question of whether LECs need some relaxation of their current powers or need legislation to widen their scope, perhaps they could widen their scope without having to wait for legislation.

Mr Rumbles: Although you might be right to say that legislation is not necessary, the focus and intent that you mention are not so obvious—and certainly not to people in rural areas in the north-east of Scotland. Although Scottish Enterprise emphasises economic development, there is a different emphasis in the Highlands and Islands. I know that because community development companies have told me that they cannot get the funding.

Jim McFarlane: I do not believe that legislative change is required here. Section 8(1)(a) of the Enterprise and New Towns (Scotland) Act 1990 empowers Scottish Enterprise to do virtually anything that will enhance and improve the Scottish economy. As Iain says, LECs have a very wide remit. Quite often, the question is about commitment, resources or competing priorities. The various LECs' perception of rural problems is changing; for example, the chief executive of

Scottish Enterprise Grampian has said that rural issues are the number one concern for that area. Julian Pace and Irene Walker might be able to give some examples of community initiatives under the LEADER II programme.

Julian Pace (Scottish Enterprise Borders): I want to return to Jim's point about priorities, commitment and resources. As LEADER II was new to the Borders, Scottish Borders Enterprise, as it was called five years ago, looked after the programme. With the commitment to and the resources from that programme, the enterprise company could engage in more community development, for example, by funding the rural partnership and working with the voluntary sector on upgrading its IT skills. We worked with communities on projects because any economic benefit from those projects might benefit the area as a whole. Our experience with LEADER II in the Borders showed that, given such resources and commitment, an enterprise company in lowland Scotland can engage in social activities with communities.

Irene Walker: Priorities are the key. For the past five years in Dumfries and Galloway—and even before that when we had a LEADER I initiative called Galloway Groundbase—we have matched European moneys. Although we were not directly involved in the social remit, we have been able to support social and community developments, and even cultural and arts events, by investing in Galloway Groundbase's shop within a shop. Although the LEC does not directly fund those projects, it indirectly does so by putting money into another organisation.

Much more recently, we launched a community development initiative, which involved very small sums of money. Communities are best placed to develop projects with the voluntary sector. Although the initiative might resemble a bidding process, we ask communities to develop and submit cases, and if they meet a certain set of criteria, we will award them funding. When we launched the pilot this year, we were inundated with applications and all the money—£100,000, or £10,000 each to 10 projects—has now been allocated.

Iain Robertson: The leverage in community affairs is good. I think that we get £5 of other investment for every £1 of ours. On the business side, it is more like £3—or in a good year £4—of other investment for every £1. The Government's investment in community facilities goes a long way. I have been in this role for 10 years and, particularly because of the opportunities fund, I cannot think of a time when there has been a better range of funds for local communities to access. We have to ensure that our communities are equipped to take advantage of that situation.

Mr Rumbles: That is the point that I was trying to make. Highlands and Islands Enterprise seems to be accessing the funding—particularly the core funding—automatically, whereas Scottish Enterprise is only saying that the funds can be accessed. There is a distinct difference there.

Irene Walker: We are working with people in communities or officials who have been allocated to local initiatives. The historical pattern was that a council employee would be charged with running an initiative or would self-appoint a leader. We have embarked upon a training and learning initiative to ensure that people are up to speed about where to source funds, the ways in which to complete what are sometimes long and complicated application forms and the techniques that will ensure success. We ran a similar programme to upskill voluntary sector workers and have now moved on to upskill those who are keen to secure funds from a third or fourth party.

Rhoda Grant (Highlands and Islands) (Lab): Most of the communities that we are talking about are isolated. It must be difficult to get the information about funding and assistance to them and then to get them to come forward with initiatives. Has any work been done on that?

Iain Robertson: Through one of the lottery funds—I have forgotten its name—we have been working to buy a computer for every community. It would be possible to have a computer in a community's village hall or wherever through which a range of programmes can be accessed.

Highlands and Islands Enterprise has a good set of web pages. Some, which are run in concert with Highland Council, are called HIE ways and are financed by European money. We also have a set of cultural pages that are run in concert with HIE arts and the Scottish Arts Council. All those web pages are interlinked. Also, the Workers Educational Association trains people in the use of computers—particularly women who are returning to work—and the colleges and training providers in the area offer what we call the European computer driving licence. Such initiatives give people a grounding in accessing information over the web.

Our local enterprise companies have a variety of local meetings to extend their knowledge of such matters. Rhoda Grant comes from Applecross and will be aware that there are few more remote areas in the winter as there is only one long and narrow road in and out. It is difficult to get activity into such areas but, once a corps of people who are prepared to do things has been established, it is amazing how a community can take off. The best example of that is Ullapool. The initial target was a swimming pool but the community went on to secure funding for a museum, a golf course and a radio station that won an award. We hope that the town will try for an arts centre before long.

Irene Walker: There is also something of a snowball effect. Once people at Newton Stewart got a group together, they learned from the Langholm initiative. Now Moffat is learning from Newton Stewart, so a self-generating, self-promotion process is under way in our communities. It is not forced by us. We might suggest, "It would be useful if you talk to so-and-so", but it is of huge benefit that not all communities have to invent their own wheels, as it were.

Jim McFarlane: We are describing a process of capacity-building, and of encouraging communities to develop their own skills and to take responsibility for their own development. I mentioned the new economic strategy for the Scottish Borders. Its theme is of vibrant communities, and of focus. We mentioned the work of rural partnerships, and I invite Julian to describe some of the initiatives undertaken locally.

Julian Pace: When the rural partnership was set up in the Borders—it is funded by Scottish Borders Council, by Scottish Enterprise Borders and by Scottish Natural Heritage, from its local office—its primary remit was to work with the remoter communities to help them not only to access the services of all the public agencies in the Borders but to access funding to deliver projects and to help villages and communities appraise their needs. Throughout the year, local agencies, including us, go on a roadshow around the remote communities, staying in each one for two or three days and working with them.

The Convener: We are coming near the end of the time allotted, but I can assure you that we will submit a great many questions in writing after the meeting. There are a couple of issues that I would like to take a few minutes to cover. They are covered by questions 4, 8 and 9.

Alex Fergusson (South of Scotland) (Con): I think that Stuart Black spoke about the importance of small businesses in all rural areas. I am sure that that applies equally to the Highlands and Islands and to the south of Scotland. I am sure that the future start-up rate of small businesses is uppermost on everybody's agenda as we try to turn the economy of rural Scotland round.

Can anyone tell me if there is a significant difference between the start-up rates and the failure rates of small businesses in rural areas compared to urban areas, or are they much the same? Do rural areas tend to be more successful?

Stuart Black: The best source of statistics on new business starts is from the Committee of Scottish Clearing Bankers, which provides very good data. Those data show a wide variation in start-up rates around the country. Generally, rural areas produce more businesses than urban areas;

typically, self-employment rates are far higher. There is also a tendency for higher start-up rates in rural areas. Within the Highlands, some of the best start-up rates have been in Orkney, Skye and Lochaber rather than in Inverness. There are not such good data on survival rates. There does not seem to be much variation between urban and rural areas. At any rate, the start-up rates are higher in rural areas.

Julian Pace: Under the objective 2 plan, we considered the survival rates for VAT-registered businesses. We found that, for rural businesses, the survival rate was higher in southern Scotland than in Scotland as a whole. For example, the four-year survival rate in Dumfries is nearly 60 per cent, compared to 50 per cent in Scotland as a whole, and that is quite a big difference.

Alex Fergusson: You mentioned the self-employed, and their significantly higher number in rural areas was mentioned in both presentations. Does that signify a greater degree of entrepreneurial spirit in rural Scotland, or does that mask a lack of employment opportunities?

Iain Robertson: Frankly, the latter is the case. In an urban environment, people have ready choices all around them, and, even where there is high unemployment, there is still a certain turnover in job activity. We do not have that turnover in rural areas. In some senses, that is a blessing. One of the reasons that call centre and e-commerce activity is taking off in the Highlands is that the work force is loyal and we do not have the same churn, as it is called, that exists in Glasgow or in London. However, a person starting his or her own business in the Highlands may well be doing so because he or she has no choice.

Jim McFarlane: That is a common characteristic throughout rural Scotland.

Alex Fergusson: I know that you are in the business of trying to encourage start-ups, but what factors do you think most obstruct business start-ups in rural Scotland? What role do your agencies have in trying to improve the start-up rate?

15:30

Iain Robertson: Factors could include lack of confidence, lack of training or lack of a mentor. We have a range of programmes to tackle all three obstructions and to develop skills. Business people need to know that there is someone whom they can work with over a long period of time. There was a day when the bank manager was the friend of small business, but that situation has now changed beyond all recognition. I see the role of the LEC and of a good LEC officer as being the friend of small businesses in the area.

Jim McFarlane: Limited market opportunities

can be a key issue. Although we have high start-up rates and many people electing for self-employment as opposed to unemployment, many self-employed businesses are generating low incomes. How to grow new businesses in a depressed market situation is an important issue. We can provide help through the sort of support infrastructure for new-start businesses that Iain Robertson has outlined and by providing aftercare during the formative years of a business.

Premises provision in rural areas can be a problem. I mentioned failures in the property market, and finding start-up accommodation is often cited as a major difficulty by small businesses. That can often be a constraint on expansion.

Iain Robertson: Members might be interested in a pilot scheme that we have started in the Highlands. We are running an incubator unit in Inverness, which is already 50 per cent full. It is just rooms with facilities in a managed building, and I know that such units are provided in other parts of the Scottish Enterprise area. It has attracted a wide range of high-tech businesses and some young start-ups. If it is successful, and it looks as if it will be, we will roll that out.

Often in a rural community, what is needed may not be office premises. It might just be a yard or a fenced area for storing a trailer and ladders. Enterprise companies and local authorities can provide a range of such premises in the Highlands and in the rest of the country. That is essential for all forms of start-ups.

Dr Elaine Murray (Dumfries) (Lab): You have mentioned the importance of developing key growth sectors in HIE, in areas such as information technology, biotechnology, manufacturing, tourism, food and forestry. I am interested in how you view different strategies for encouraging that sort of growth. Scottish Enterprise has the cluster strategy. I presume that Highlands and Islands Enterprise has no equivalent of that strategy.

The Scottish Enterprise rural group has an active dialogue with the cluster teams. How useful is that cluster strategy in rural areas? There are some who would argue that cluster strategies work well in the central belt, bringing new technology industries into Livingston, for example. How well is that strategy working in rural areas, and what do you think we can learn from the problems of trying to attract such businesses into rural areas?

Iain Robertson: Although we accept that there is good thinking behind the cluster strategy, we considered it for the Highlands and Islands Enterprise network and did not see any particular advantages for us. What we are trying to do in many areas is anti-competitive and anti-cluster.

We are trying to put businesses out into such places as the western isles, where the idea of a geographic cluster just will not work. To have a cluster that is the whole Highlands and Islands destroys some of the credibility of our arguments.

We do not push the cluster strategy, but we are happy to work with Scottish Enterprise on some aspects of its cluster strategy. For example, we had an action plan for food and drink development in the Highlands and Islands. When the Scottish Enterprise cluster strategy for food and drink was developed, we discovered that the lists were identical. We are talking about common sense with limited resources and needs and common markets. For rural areas we would argue that clusters are less appropriate. We certainly would not want Lanarkshire to be the cluster for all distribution in Scotland, because we would like some of it in the north. We are trying to persuade businesses not to move into geographic clusters.

We are also trying to diversify the economy away from clustering on too few items. That was a problem with the Highlands and Islands' economy in the past, in that we were about whisky, aluminium smelting, agriculture and fishing and that was not a diversified economy such that it would hedge the highlander from the downturns in commodity markets around the world. We need breadth and range, so I agree with you that clusters are less appropriate for rural areas, although they do have a place.

Jim McFarlane: Clusters have a certain application. For example, forestry in the south of Scotland offers opportunities. Most of the forests that were planted in the post-war years are nearing maturity. We have an active local forestry action group in the Borders, and there is a parallel group in Dumfries and Galloway. Last October we held a conference in the Borders at which the industry in its broadest sense was represented, not only from the south of Scotland but also from Northumberland. We had growers, processors, furniture makers and architects who might be interested in sourcing locally.

Clustering is an attempt to open up all elements of the supply chain to address economic development. For industries like forestry, tourism and food, as Iain said, clusters are relevant, but they are not the sole answer. In rural areas we need diversified economies. Alongside initiatives to develop the breadth of economic activity within particular sectors, we also have to have an intensive and proactive approach to our work with individual companies.

Dr Murray: How do you strike a balance between encouraging the employment potential in forestry, for example, while safeguarding an area from becoming so dependent on it that if, as is happening at the moment, forestry takes a

downturn, the area does not suffer significantly worse than other parts of Scotland such as urban areas? You mentioned that the growth sectors in Dumfries and Galloway are rubber and plastics and food processing, but that was in 1997. Both those sectors have taken a downturn since then and jobs have been lost. That has had a significant effect on the local economy because there is such a dependence on those jobs. How do you strike the right balance in raising opportunities but not being overdependent on particular industries?

Jim McFarlane: It is a question of how we allocate our resources, particularly our staff resources. The greatest part of our work with companies is the one-to-one contact between our business development staff and individual companies. For example, we have a team of three or four people devoted to textiles in the Scottish Borders because, despite all the recent difficulties, it is still a key sector for us. Close to 5,000 people are still employed in textiles, and our task is to work with those companies on an individual basis to assist them to reposition themselves in higher-value markets. While we are doing that, we also have an active business start-up team, and we have individuals in our organisation who link into various cluster teams within the network. So we are applying specific local approaches to our businesses, but are also attempting to link into national initiatives. That is one of the strengths of the enterprise network.

The Convener: We have come to a natural close. There are a number of other questions on the list in front of us, and a significant number of questions have arisen as the discussion has progressed. Are there any points that we should take the opportunity to raise, or can the remaining questions be dealt with in correspondence?

Mr John Munro (Ross, Skye and Inverness West) (LD): This has been a lengthy presentation with a receptive committee, and we have identified with a lot of what has been said. I am sure that the witnesses appreciate that this committee has factions and many hats to wear, and that a lot of legislation comes before us. At times, we are looking for advice from people like yourselves.

One of the current pieces of legislation is the Abolition of Feudal Tenure etc (Scotland) Bill. I have heard many of you use the word "community". Our exercise is to define community in rural Scotland with regard to the land reform proposals. Do you have a slick definition?

The Convener: Before you answer, we genuinely are looking for a concise definition. Do you have one?

Iain Robertson: I do not think that there is a slick answer, but a community is an association of

people, interest, area and culture. I am sure that in our literature we have several definitions. Like “rural”, the word “community” means different things in different places. For example, you can get a community together for traditional music, but you might not get the same people together on the subjects of religion or steam navigation.

The Convener: On behalf of the committee, I thank you for coming along today and giving us the benefit of your experience and wisdom of a broad and complex subject. This is the start of our journey, and, once we get to the end of it, we hope that we will understand the subject a great deal better than we did at the beginning. I thank Iain Robertson, Jim McFarlane, Stuart Black, Sandy Cumming, Julian Pace and Irene Walker for helping us today.

Iain Robertson: Thank you for giving us the opportunity.

The Convener: I suggest that we have a five-minute adjournment.

15:42

Meeting adjourned.

15:54

On resuming—

The Convener: Ladies and gentlemen, that short delay lasted more than five minutes—did it suffice?

Alasdair Morgan: That is a bit personal.

The Convener: I was referring to the smokers.

National Parks (Scotland) Bill

The Convener: Item 2 is consideration of the financial memorandum to the National Parks (Scotland) Bill, on which a paper has been circulated to members. We have a reasonable amount of time to deal with the financial memorandum.

Richard Davies (Clerk Team Leader): The Finance Committee will have to consider the financial memorandum to the bill and report on it, but there is not much time to do that because it is expected that the stage 1 debate will take place on 24 May.

The Convener: Essentially, consideration of the financial memorandum to the National Parks (Scotland) Bill is the responsibility of the Finance Committee.

Dr Murray: I wish to make a procedural point. I looked at the agenda for tomorrow’s meeting of the Transport and the Environment Committee and discovered that that committee will take evidence on the National Parks (Scotland) Bill. Although Irene McGugan and I are rapporteurs—I assume that this is the same for her—we were not notified of that and were not sent papers. I note that the rapporteurs from the Transport and the Environment Committee are not present here although an issue relating to the National Parks (Scotland) Bill is on the agenda. What procedures are there to let rapporteurs know when committees are meeting to discuss aspects of the National Parks (Scotland) Bill, and to issue them with relevant papers?

Richard Walsh (Senior Assistant Clerk): We do not have a formal procedure for that. We are merely notified that rapporteurs should be copied into the relevant papers. I suspect that an oversight has occurred due to the recess.

The Convener: We should look into this matter immediately so that we can put it right as soon as possible.

Richard Walsh: The papers can be issued immediately.

The Convener: I understand that consideration of the financial memorandum is largely the responsibility of the Finance Committee, but that we can make an input into it. The financial memorandum has been circulated and it is open to you to comment on it. I suggest that we decide how we will consider it in the time that is available: do you wish to take evidence or advice on it?

Alasdair Morgan: The only thing that appears to be interesting or that involves large sums of money is paragraph 144 on the costs of Loch Lomond national park. Can we have a breakdown

of the £2.4 million?

The Convener: Does the committee agree that we should ask for that breakdown?

Lewis Macdonald: I agree that it is worth investigating those figures a little further. However, given the timetabling difficulties, which we have discussed before, it might help to progress the bill if we deal with those figures when we consider the budget documents later today, because the programme and set-up costs for the Cairngorm and Loch Lomond national parks appear as provisional lines in the budgets for the relevant years.

The Convener: Do you think that the breakdown in the budget documents is adequate?

Alasdair Morgan: No. However, a breakdown of the figures in the budget document would be the same as what I am requesting.

The Convener: Should we write to the minister for that specific breakdown?

Dr Murray: There is additional information on page 21 about predictions of costs for the Loch Lomond and Cairngorm national parks.

The Convener: Would you rather hear it from the minister?

Alasdair Morgan: No. I am happy as long as it is on paper somewhere.

The Convener: We can obtain information to confirm those figures. Are there any other issues relating to the financial memorandum? With the proviso that we will seek additional information on the point that was raised, we will note the financial memorandum.

Sea Fisheries (Shellfish) Amendment (Scotland) Bill

The Convener: Has everybody seen the responses to our request for views on the bill, which have been circulated?

Members indicated agreement.

The Convener: Members will recall that we agreed to seek submissions from the industry and then consider oral evidence. As you see, all the submissions express overwhelming support for the general principles of the bill. Given that level of support, further oral evidence may not be required.

Mr Rumbles: If the support is overwhelming, I suggest not.

Lewis Macdonald: I agree. One or two points have been raised, by the Clyde Fishermen's Association for example, that I am sure will come up again but they do not need to delay the bill process.

Alasdair Morgan: Those points seem to be tangential to the bill.

The Convener: Are there any further comments? In that case, would it be appropriate to ask the clerks to prepare a draft report on the general principles of the bill? We will aim to consider that report at the earliest possible opportunity. We should agree to meet in private to consider that report. Does that meet with the approval of the committee?

Members indicated agreement.

The Convener: A date for that will be arranged as soon as possible. Are there any further comments?

Items in Private

The Convener: We now come to item 4. It has been suggested that we take items 4 and 5 in private. Do you agree that we should discuss the budget in private?

Mr Rumbles: I do not see why.

The Convener: Do you see any reason why we should not take the scheduling of the National Parks (Scotland) Bill in private?

Mr Rumbles: I would prefer not to.

Alasdair Morgan: We have met in private when discussing the committee's timetable and we should stick by that precedent. It is not of public interest; it concerns only members' diaries and related matters.

Mr Rumbles: Why should that be in private?

Alasdair Morgan: Because it is only housekeeping—not democracy in action.

Lewis Macdonald: I agree with Alasdair. We have established a sensible approach—that things that are of no conceivable public interest can be discussed privately and we can then complain about our conflicting committee commitments without its having to go in the *Official Report*.

Mr Rumbles: I still disagree. If there is no overriding reason why something should be confidential, it should be in the public domain. The timetabling of a forthcoming bill is of public interest.

The Convener: Are there any other views? Given that there is disagreement and that the majority appears to be in favour of taking this item in private, I would be keen to hear the views of those who have not yet spoken.

Rhoda Grant: Can we have a show of hands, to speed things up?

Richard Lochhead (North-East Scotland) (SNP): I do not think that it is in the public interest to have several pages of the *Official Report* taken up with discussion of our diary availability to discuss a particular bill. It is crazy to have reached the stage where we may vote on that.

Alex Fergusson: We have set a precedent for this. I see nothing of public interest in the timetabling issue that we are about to discuss. I am happy to agree with the deputy convener.

The Convener: Mike, would you be happy to have your objection noted, but to continue with the will of the majority?

Mr Rumbles: No.

The Convener: The question is, that item 5 be taken in private. As we are not all agreed, there will be a division.

FOR

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)
 Alex Fergusson (South of Scotland) (Con)
 Rhoda Grant (Highlands and Islands) (Lab)
 Richard Lochhead (North-East Scotland) (SNP)
 Lewis Macdonald (Aberdeen Central) (Lab)
 Irene McGugan (North-East Scotland) (SNP)
 Dr Elaine Murray (Dumfries) (Lab)
 Cathy Peattie (Falkirk East) (Lab)

AGAINST

Mr John Munro (Ross, Skye and Inverness West) (LD)
 Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD)

The Convener: The result of the division is: For 8, Against 2, Abstentions 0.

Motion agreed to.

Budget Process

The Convener: Members should have received extracts from this year's departmental report, which was published on Friday. The extracts cover the areas the committee will be interested in but, as members will be aware, not all of them are relevant to our remit. There may also be other extracts that we do not have that members would consider relevant. Members may wish to consider chapter 6 on rural affairs and forestry and chapter 8 on local government and European funds, which cover the core Scottish Executive rural affairs department and Forestry Commission work with local government services and European funding in general. We have to decide today whether we wish clarification from the Executive on any aspects of the figures in the report.

Lewis Macdonald: It is useful to have this paper and the opportunity to discuss it. Some of the funding lines have been presented in a fairly general way. It would be useful to explore those areas a little further. That applies to both agriculture and fisheries. It would be useful to hear from witnesses from the rural affairs department to find out some more information.

Dr Murray: I support Lewis on that. Only blanket figures are given. There is very little explanation of the trends behind them. It would be useful to have members of the Executive here to talk about those trends.

Richard Lochhead: I support the comments that have been made so far. We should seek clarification of the figures for the Fisheries Research Services. There is no change in the figures for 1998-99 and 2000-01, which is quite surprising given some of the topics that have been discussed in this committee.

The Convener: Would it be appropriate to invite representatives of SERAD to answer questions on this report?

Alasdair Morgan: Would it be appropriate for those representatives to submit a document prior to giving evidence, so that we have advance notice of what they will say?

The Convener: Alasdair mentioned to me a moment ago that it would be useful to have submissions in writing so that those giving evidence can answer questions on their submissions.

Lewis Macdonald: I do not disagree with that, but I take it that in doing that we would not be limiting the range of questions we would be able to ask about this report.

The Convener: Do we have anybody in mind we would especially like to question? Will we

require a range of witnesses with expertise on agriculture, forestry and fisheries?

16:12

Meeting continued in private until 16:53.

Alex Fergusson: Given that Richard Lochhead has said that he wants to ask about fisheries, I have forestry questions that I would like to ask. I have no doubt that members would like to ask agriculture questions. We need a range of witnesses.

The Convener: We will make that clear when we contact SERAD, so that it can provide for that when deciding who to send to the committee.

We will be required to draw up a report on aspects of the budget document. The deadline for submitting the report is the end of May. Members of the clerking team have suggested that it might be appropriate for us to appoint reporters to take responsibility during the development of that report. In discussions earlier, my view was that, as we have done on one or two occasions before, it would be appropriate to appoint two reporters on this matter. One should be a member of an Executive party and the other should be a member of an Opposition party. Does that meet with the committee's approval?

Members indicated agreement.

The Convener: Are there any volunteers?

I see that Lewis Macdonald has raised his hand to volunteer.

Lewis Macdonald: Not quite.

The Convener: Did you just want to speak?

Lewis Macdonald: Yes. I nominate Cathy Peattie.

Alasdair Morgan: I suggest Richard Lochhead.

The Convener: Would it be appropriate to ask Richard Lochhead and Lewis Macdonald to be reporters on this issue?

Lewis Macdonald: No, Cathy Peattie. I know that you are keen to have me as a reporter, Alex.

The Convener: Cathy Peattie seems to be appointed as a reporter rather a lot, but that is okay so long as she is keen.

Would the committee be content for Cathy Peattie and Richard Lochhead to act as reporters on the budget?

Members indicated agreement.

The Convener: Do members have any other comments to make on the budget?

We therefore come to item 5 on the agenda, about the timetabling of the National Parks (Scotland) Bill, which the committee has decided to take in private.

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