

RURAL AFFAIRS COMMITTEE

Tuesday 16 May 2000

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RURAL AFFAIRS COMMITTEE **13th Meeting 2000, Session 1**

CONVENER

*Alex Johnstone (North-East Scotland) (Con)

DEPUTY CONVENER

*Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)

COMMITTEE MEMBERS

*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)
*Mr John Munro (Ross, Skye and Inverness West) (LD)
*Dr Elaine Murray (Dumfries) (Lab)
*Cathy Peattie (Falkirk East) (Lab)
*Mr Mike Rumbles (West Aberdeenshire and Kincardine) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Mark Shucksmith (Adviser)

WITNESS

Dr Andrew Cumbers (University of Aberdeen)

CLERK TEAM LEADER

Richard Davies

SENIOR ASSISTANT CLERK

Richard Walsh

ASSISTANT CLERK

Tracey Hawe

LOCATION

Committee Room 2

Scottish Parliament

Rural Affairs Committee

Tuesday 16 May 2000

[THE CONVENER *opened the meeting in private at 09:34*]

Meeting adjourned at 12:37.

15:34

On resuming in public—

Rural Employment

The Convener (Alex Johnstone): It is my pleasure to welcome you back to what is technically a resumption of the meeting that we convened at half-past nine this morning. To discuss our inquiry into changing employment patterns in rural Scotland we have with us Professor Mark Shucksmith and Dr Andrew Cumbers, who will speak about two of the papers that were circulated in advance of the meeting. Having sat through this morning's session, it will be a pleasure for us to hear what they have to say. I shall not go into any further technical introductions; I invite Professor Shucksmith to begin.

Professor Mark Shucksmith (Adviser): I am here to summarise the papers that members have probably not had long enough to read in detail and to try to get a discussion going about some of the issues as a way of taking the inquiry further forward.

I do not propose to summarise the first of the three papers—the one that Sue Sadler put together, which draws on the consultation by the Enterprise and Lifelong Learning Committee. I shall pass that one by for the moment. I shall try to summarise the second of the interim reports, which is entitled “Employment Change in Rural Scotland”. Dr Andrew Cumbers will then summarise the third interim report, which considers policies. I have prepared a three-page summary of bullet points to give members some record of what I am going to highlight as the main issues. It is also headed “Employment Change in Rural Scotland”.

The first part of the report focuses on the drivers of change and draws attention to economic, social, environment-related, globalisation and policy drivers. Among the economic drivers, the report begins by drawing attention to the importance of the economy growing and income levels generally rising and to how that changes the balance of

demand for various goods and products in different sectors of the economy. The report draws out how that might lead to a declining proportion of spending on agriculture and other primary industries and an increasing proportion of expenditure on leisure and recreation, for example.

The second economic driver that the report mentions is technical change. That both drives and responds to changes in the structure of the economy. One relevant example is technological change in agriculture—often known as the technological treadmill. The innovators in farming will adopt the latest innovations and newest technologies in a bid to bring down their costs, and other farmers have to copy them to remain competitive. The result is that there is a change to new technology more generally, but those who are unwilling or unable to adapt find themselves squeezed out of the industry and the treadmill keeps on turning.

Other technology-related economic drivers include changes in production processes, such as moves toward flexible specialisation, the development of customised products for differentiated markets and just-in-time production. The report notes that some of those drivers may work to the disadvantage of rural areas, in that there may be a benefit in being close to one's customers if one is producing just in time and in a flexible way.

The most talked about technological changes are to the information technology, biotechnology and energy technology sectors. There is much discussion in the report about information societies, technology and the shrinking of distance. The report reviews the evidence and the extent to which more opportunities and challenges for rural areas will be created. It notes that inward investment in call centres and back offices may be the quickest way to generate IT-based employment in rural and peripheral regions but points out that questions remain about the quality of the jobs, the levels of income and the long-term security of such employment, which is often part-time and casualised. The distribution of employment effects differs markedly from one area to another. We will try to bring that out later in the summary.

There are a number of important social drivers. The most obvious one is the increasing participation of women in the labour force. I will skip over the reasons for that, which are reviewed in the report. That has important consequences for employment change in rural change. Generally in rural areas, the opportunities for women are increasing but those for men are not.

Other social drivers include increased personal mobility, which is particularly associated with the

car, and the aging of the population, by which I mean not that we are all getting older but that the structure of the population in rural areas is becoming older than that of the population in urban areas—there are more older people and fewer younger people in rural areas than there are in urban areas. Another social driver is changes in household structures—there are now more smaller families and single-person households.

On environment-related drivers, the report draws attention to the major change in the past 50 years in how people conceive and value the natural environment and to how it is increasingly becoming a commodity and something from which we expect to earn a return or for which we have to pay in some way. Rural space—the countryside—is becoming a consumption good. It is becoming something that people from the towns like to consume, either by going there or by living there. It is not often where they do their production, but it is increasingly where they do their consumption.

There has been a heightened sensitivity to threats to the environment, which is associated with our knowledge of global warming and pollution. People are more environmentally aware now and are concerned about the effect on the environment of things such as genetically modified crops or quarrying and mining. Therefore, it is often perceived that there is a conflict between economic development and the environment. That may not be true in all cases, but there is a line of perceived conflict between economic development and the environment which comes to a head over issues such as the Cairn Gorm funicular.

We can hardly ignore globalisation, which means many things to many different people, as a driver of change. In the report, we try to highlight three ways in which globalisation will affect people in rural communities. First, there is the growing power and importance of multinational companies, which affect the lives of everyone, whether in urban or in rural areas. Such companies have power in relation to Governments, which find it difficult to regulate them and negotiate with them because they think multinationally. Secondly, globalisation applies to the development of new technologies, especially in transport and telecommunications, which are shrinking the world and reducing distances.

15:45

That is a positive feature for rural areas in that it reduces the distance to markets, but it is also negative in that it opens up rural areas to much more competition from low-cost countries in the far east or eastern Europe. Thirdly, we draw attention to the growth of global flows of money and information, which are of course related to technological changes and from which

opportunities and threats arise.

On policy drivers, the report draws attention to the importance of several national and, indeed, pan-national policies. The first of those is macroeconomic policy, which is a UK responsibility at the moment, although there is increasingly a close relationship with other countries on many elements of macroeconomic policy—notably interest rates and exchange rates. There are other national policies that have great relevance to rural areas, the importance of which may not have been fully researched, such as deregulation, welfare reform and the minimum wage. Andy Cumbers may address those elements when he summarises the third report.

What the enlargement of the European Union might mean for rural areas in terms of competition and structural funding is obviously important. The sectoral and spatially targeted EU policies are also significant. The most important of those for Scotland is probably the common agricultural policy, the reforms to which will be well known to you.

The second heading corresponds to chapter 3 of the full report. There is a wealth of material in this chapter, so I thought it would be best to summarise it in a few bullet points—you will find much more in the full version when you have time to read it.

Economic activity rates are generally higher in rural areas than they are in urban areas, but there are many differences between different rural areas. Economic activity rates are lower in South of Scotland than in urban Scotland.

The work force is slightly older in rural areas. More people are self-employed or in part-time employment in rural Scotland. That is important because, at least in a rural context, self-employment and part-time employment are associated with lower incomes.

Until 1997, unemployment was lower in rural areas than in Scotland as a whole, but in the past two years average rural and urban rates of unemployment have converged so that there is now very little difference between them. Nevertheless, there are big differences within rural Scotland. In the three major components of rural Scotland, the highest unemployment is in the south, the lowest is in the north-east, and the Highlands and Islands are in an intermediate position.

Long-term unemployment is concentrated in Caithness, Sutherland, the Uists, Harris, the Argyll islands, Kintyre, east Ayrshire and parts of Dumfries and Galloway. Another feature of rural areas is seasonal unemployment, which affects all Highlands and Islands areas outwith Inverness.

I will now say something about the different sectors of industrial activity. The agriculture sector employs 8 per cent of people in Scotland, but because the sector is increasingly employing people part time, it employs only 5 per cent of full-time equivalents when part-time jobs are converted, which indicates the trend towards part-time and casual labour in agriculture.

The decline of agricultural employment is substantial and seems unaffected by the 1992 and 1998 CAP reforms, or by other short-term fluctuations in incomes. As a result, the effect on employment of the current difficulties in agriculture must be put into a long-term context. Figure 8 on page 22 of the interim report shows that the trend since 1970 looks very much like a straight downward line.

Employment in the forestry and fishing sectors is also declining steadily. In the fishing industry, possibly the greatest impact is being felt in the Peterhead and Fraserburgh area, where almost 40 per cent of Scottish fishery and fish-processing employment is based. Food processing has also lost employment since 1991, and jobs in hotels and restaurants in rural areas are also declining markedly.

However, there has been substantial growth in employment in high-tech manufacturing and information technology services in rural Scotland, as Highlands and Islands Enterprise mentioned when it gave evidence to the committee. Worryingly, for a sector on which Scotland's future is supposed to depend, research and development jobs have been rapidly lost from rural Scotland in the past decade.

The service sector is the main employment sector in rural Scotland, accounting for two out of every three jobs, which is roughly the same as the figure for urban Scotland. Indeed, if we compare the structures of employment in rural and urban Scotland, almost all the services have a similar employment profile. The only marked differences are that rural Scotland has slightly more jobs in hotels and catering, even though that figure is declining, and far fewer jobs in banking and finance.

Section 4 of the interim report contains a rather interesting analysis of the spatial effects of employment change which, although perhaps presented in complex terms, can be summarised very simply. We can work out the expected employment change in a region through examining aspects of the industrial structure such as the number of growth sectors and declining sectors and applying national average rates of growth and decline to those sectors. We can then find out what has actually happened and whether the region has fared better or worse than expected, given its mix of industries. As a result, we have

found that the north-east has performed better than expected with its industrial mix, whereas the remainder of rural Scotland has performed quite a bit worse.

Structural characteristics in the Highlands and Islands and South of Scotland would have led us to expect job growth in those regions, but both have lost a significant number of jobs over the past decade. Although it is hard to explain that, we speculate in the report that it might reflect poor accessibility, sparsity of population and poorer business networks. Further research is needed to understand why such regions have performed better or worse than their industrial mix would have led us to expect.

Finally, on the social and economic impact of employment change, chapter 5 of the report identifies a number of barriers to employment in rural areas. For example, there are mismatches between the jobs on offer and people's skills, perhaps because employment opportunities are vulnerable to the closure or migration of one employer. Furthermore, there is a limited range of employment opportunities. Although there tend to be a lot of opportunities for relatively poor-quality jobs with not very interesting work, fairly low levels of pay and a lack of career opportunities, there are very few jobs for graduates, which means that people who go to university tend not to find jobs back in their local area. If they are going to work in a rural area, they will have to compete in a national job market with graduates from everywhere.

Interestingly, job searches in local labour markets were conducted primarily through personal networks—such as young people's parents and older people's own personal networks—which has consequences about who finds it easy, or not, to get a job. Paradoxically, incomers who do not have such personal networks might find it harder to get a job in those local labour markets than in the national labour market; equally, anyone in a community who has transgressed or is from a bad family might also find it harder to get a job.

There are fewer opportunities for training and education in rural areas, partly because the centres that offer them are distant and because the small firms in such areas are unable to give the same levels of training as larger firms. The committee will be well aware that access to transport and the high costs of transport and child care are barriers to employment, particularly to women working in rural Scotland.

As for earnings, a substantial amount of evidence now shows that wages are on average lower in rural areas than they are in urban areas and that low pay is more persistent. It is harder to escape from a low-paid occupation into a better-

paid one. Low pay particularly affects young people; people without formal qualifications or credentials; employees in small workplaces; and people working in farming and tourism. Worryingly, wages in the Highlands and Islands appear to have declined since 1975 compared with wages in the whole of Scotland. Low pay also appears likely to persist across generations.

What does all this mean for social exclusion and poverty? Poverty in rural areas is similar in extent to that in urban areas, but it is more hidden and less concentrated in particular localities. There is evidence that there may be less uptake of benefit entitlements in rural areas, for a number of reasons that the report goes into in more detail. However, poverty is not related primarily to low pay and low wages. Most people on low incomes are people who do not work, rather than people who work for low pay. They include people who are retired and people who are detached from the labour market in some way—the long-term sick, people who are caring for another family member and the unemployed. As I have already mentioned, the self-employed are also often poor.

Low incomes have implications for housing markets, in so far as they make it harder for people to afford housing. The lack of affordable rental housing in many areas of rural Scotland may constitute another barrier to employment.

I am sorry for taking rather longer than I should have. I will now hand over to Dr Andrew Cumbers. We will deal with any questions afterwards.

16:00

Dr Andrew Cumbers (University of Aberdeen): Interim report 3 is concerned with policy and practice. As members can see from the handout that has been circulated, it addresses the current range of policies and institutions that relate to rural employment issues in Scotland—in particular, the policies relating to issues such as employment generation, the labour market and education and training. The report then assesses and evaluates those policy interventions. The final part of the report is particularly valuable, as it offers case studies of best practice from across the range of employment generation and training issues—policies and schemes that seem to have worked quite well and that could be adopted throughout rural Scotland. I urge committee members to study those.

As members can see, we have picked out four examples of best practice. The first is from an EU project called LEADER, which I am sure many members have heard about; I understand that someone from a LEADER programme will give evidence to the committee later. It is an example of best practice in developing a sustainable

community—in encouraging community economic development in rural areas. The second example relates to industrial policy and the Scottish Enterprise cluster approach to economic development. The report examines how particular sectors are targeted and some of the results of that. The third example is a very good information technology scheme that has been developed in the Western Isles. Finally, the report examines a couple of examples of local training initiatives in Orkney and Lochaber. I recommend that committee members read about those.

If we may turn back to the handout, the first point I would make is that it is important to understand the policy environment within which rural employment occurs. In particular, we should be aware that in recent years there has been a big shift from policy being driven at national level to a range of agencies and institutions operating at different geographical levels—European Union, the UK, Scotland and locally—having an input into rural employment and training issues. Increasingly, interventions at the UK and EU levels require the development of partnerships between agencies at different levels. There has been a shift towards encouraging agencies to co-operate in devising schemes for creating employment and training.

The second key feature of the policy environment is the shift, particularly in the '90s, away from policy solutions that rely on the market towards a concern with social issues—issues to do with market exclusion in rural areas. There is growing evidence that over the past two or three decades many of the problems facing the more peripheral rural regions have related to market failure. For different reasons, they seem less able to compete than less peripheral rural areas and urban areas in the emerging global economy that Mark Shucksmith talked about. Many of the policies that are now being developed are designed to level the playing field between rural areas and the rest of the economy.

In that context, there are two themes that I would like to point out. First, we hear a lot about social exclusion, but there is a raft of policies, at EU and UK levels, aimed at tackling that problem and embracing people who have been left out of the mainstream labour market. Secondly, policy is now less about creating a local competitive advantage in rural areas that would enable them to compete globally than about creating employment that addresses the social needs of particular rural areas. That is more realistic, given that policy interventions that sought to encourage rural areas to compete globally have been seen to fail in the past.

The third feature of the changing policy environment is a move towards encouraging

bottom-up strategies, as opposed to top-down ones. In other words, there has been a major shift in the policy philosophy away from local people and communities being the recipients of policy, towards encouraging them to develop their own strategies for solving the labour market and employment problems in their areas. That is particularly true of many EU programmes, which—for better or, in some cases, for worse—have attempted to involve local people in the formulation and development of policy. That ties in with the idea of creating partnerships between local, national and European levels.

The third section of the report considers some of the policies that have been used to support rural employment. Current initiatives fall into three areas. The first are what I have termed economic development and job creation strategies. With those we associate institutions such as Scottish Enterprise and Highlands and Islands Enterprise. Scottish Enterprise has been particularly heavily involved with inward investment programmes, but this category also embraces new firm formation strategies, assistance to small firms and attempts to encourage small firms to export more.

The second area of policy development relates to specific sectors. As Mark Shucksmith said, in the past, the common agricultural policy and the common fisheries policy have been some of the most important sectoral strategies affecting rural areas. Thirdly, there has been a great deal of policy intervention at the level of the local labour market to encourage local training and education schemes. I am thinking of initiatives such as the new deal, which is a national programme but has a major impact on rural areas, and the University of the Highlands and Islands, which is seen as an attempt to encourage local people to access higher education within their communities.

In evaluating how policy has changed in recent years, it is worth pointing out that as a result of changes in the way in which the EU works, traditional sectoral policies such as the common agricultural policy and the common fisheries policy have declined in importance. As I am sure many members are aware, recently far fewer resources have been available through the common agricultural policy than were available in the past. At the same time, there has been a shift in resources towards EU structural funds—the regional development funding that is available at EU level to help rural areas.

A major point to note, which we highlight in the report, is that the Highlands and Islands and much of rural Scotland will receive funding through the EU structural funds until 2006. However, that source of funding is likely to come under threat after that, largely because of EU enlargement and the rethinking of the way in which the EU spends

its money in different regions. EU structural funding is a major source of funding for employment generation and training initiatives, but that is likely to be threatened in the medium term. In rural Scotland, there is growing dependence on EU funding for supporting initiatives, particularly innovative initiatives such as LEADER. The Parliament and this committee must consider how to adjust and develop new forms of policy and funding to make rural Scotland less reliant on that EU-based source.

Another initiative that will become increasingly important in rural Scotland, although it may not have been set up specifically for that purpose, is the new deal programme. Massive amounts of money are being spent on that programme, which is a major initiative to tackle social exclusion. Whether it can deal with the specific problems facing rural areas is another matter altogether.

The fourth part of the document deals with examples of best practice. It is worth going through the report in detail to examine the examples that have worked and that could perhaps have a better effect across the whole of rural Scotland. I have picked out three points about the kinds of policies that have worked in the past.

The first point comes from the initiatives that have been taken through the Scottish Enterprise cluster strategy and relate to economic development and encouraging competitive advantage in particular sectors. The report highlights two examples, one from the Scotch whisky industry and the other from the Orkney jewellery cluster. The first is a major national cluster of competitive advantage within the Scottish economy, which has an important effect on rural areas. The other is a good example of a local niche market that can compete globally. Based in Orkney, it brings together local firms to compete and is a good example of what can be achieved even in the most remote peripheral area.

The major point that emerges from the work of Scottish Enterprise is that the economy of rural Scotland is based on small and medium-sized firms rather than on large global companies. If we can get those firms to collaborate and co-operate over training, sharing information technology and sharing best practice knowledge, significant improvements can be made. That would allow smaller firms to begin to compete with much larger firms. That is a finding from the policy literature generally and not just something that applies to rural Scotland. If we want small rural firms to compete globally and overcome size-related disadvantages, we may have to encourage them to co-operate and collaborate with other firms, even the firms that they may in the past have thought of as competitors.

The second finding from the case studies—again I am summing up a whole raft of schemes, and I implore members to read the studies for themselves—is that, if we are to intervene in the rural economy to create sustainable communities in the long run, it is important to foster partnerships and collaborations between firms and within local communities. The evidence suggests that, where public policy has been able to bring people together by identifying key individuals in local economies and communities, and where support for intervention is provided, there can be huge net advantages. There does not have to be a high level of resources, but there must be key support in locally identified training and IT skills provision, as well as improvements in transport and communications. I point to the example of the Western Isles IT case study, which is one of the examples of best practice in the report. That is what can be achieved with a little bit of public investment in information technologies to enable job creation in rural areas.

The final point is that public policy intervention can have a major impact in sustaining local economic development if it tackles what we call the social infrastructure of communities. In other words, it is often more important to try to bring people together to create community resources. If one can encourage communities to be more integrated internally, one can often get more positive longer-term outcomes than if one just tries to stimulate artificial forms of employment. The quote from the LEADER case study on page 21 of the report states:

“Public sector intervention in developing the capacity of local organisations and individuals to manage change is often a much more sustainable (and cost effective) means of promoting development”.

Perhaps we should add to that “than traditional job-creating strategies”. Encouraging local partnerships and organisations to have the capacity to develop their own strategies and to manage change themselves often seems to be the best way of securing sustainable economic development in the longer term.

16:15

I shall summarise the main aspects of policy and make provisional recommendations, on which I would welcome feedback. There are five things that I would like to pick up on.

The first point ties in with the example of best practice from the LEADER scheme. One of the key issues is the importance of stimulating local initiative by identifying key individuals in local communities who can play a role in policy development. That can often have an important net effect. One of the biggest hurdles to rural development is often a lack of social mobilisation,

particularly in sparsely populated areas where there is little of the community interaction to solve common problems that one finds in urban areas, particularly inner-city areas. Mobilising local actors is very important.

An important sub-point to mention is that many previous top-down schemes, at UK and at EU level, have placed too much emphasis on meeting narrowly defined targets, such as providing a certain number of jobs or training schemes. Those schemes did not place enough emphasis on the underlying problems in social areas, such as how to make a local economy or community work better, more cohesively and in a more integrated way.

The second point relates to the point that I just mentioned. The way in which resources are distributed by the EU and by the UK Government under current policy has led to a culture of competitive bidding in recent years. Local areas and local partnerships are encouraged to compete against one another for valuable resources. That might work well for areas that already have a strong sense of community, with many individuals and agencies operating and acting, but it does not work so well for the more remote rural areas that are most disadvantaged. Often, those rural areas do not have the social actors, networks and cohesiveness to allow them to compete in markets outside the region.

Table 5 on page 13 of the third interim report shows the distribution of EU funding for the Highlands and Islands objective 1 area for different parts of the Highlands. It shows clearly the uneven distribution of EU funding by population. For example, Shetland has done very well out of objective 1 funding, having about 11 per cent of the amount that has gone to the Highlands and Islands despite the fact that it has less than 6 per cent of the population. On the other hand, Moray, Badenoch and Strathspey, with around 9 per cent of the total population of the Highlands, has received only 4 per cent of available EU funding. That largely relates to the way in which funding is allocated competitively. The more remote areas that do not have high levels of social cohesion are the ones that seem to be failing to attract EU resources. That does not mean that their need is not higher; it means that they do not have the social infrastructure to apply for funding under the current processes.

We must think more about having a centrally determined allocation of resources. We must have a review of the areas most in need. Resources should follow that; funding should not rely on local areas competing against one another. That does not mean that we do not need to have publicly accountable policy, but we must think about which areas are most in need and should receive the

resources.

The fourth and penultimate point from the policy review is that we do not know a lot about how some of these new policy initiatives will affect rural areas. The best example of that is the new deal, which will have a major impact. Given the resources involved, it is the major policy to tackle social exclusion, but perhaps we should review whether it is the most effective.

There is growing evidence that many of the most disadvantaged people in rural economies are not picked up in labour market statistics at all, because they have drifted off the unemployment register and are off the labour market register. An interesting report has been produced for the Rural Development Commission in England, which suggests that getting on for 40 or 50 per cent of men over the age of 50 have fallen out of the labour market. Those people would not be picked up by the new deal, which is targeted at people who are defined as unemployed. A lot of people who are willing and able to work are lost to the economy. The evidence suggests that that is especially a problem in rural areas, so we must think about that target group. Some groups will be helped through the new deal, but others will miss out.

Another aspect of the new deal that we must consider is the growing evidence that, unlike in urban areas, in rural areas there are few training and employment opportunities for youngsters or longer-term unemployed people that fit into the new deal scheme. That is because there are not as many firms and training places in rural areas as there are in urban areas.

My final point is that we must recognise not only that rural areas have their own problems but that, in talking about rural Scotland, we are talking about different sets of rural areas. The problems facing the Orkney economy are very different from the problems facing the Borders economy. That is an obvious point, but one that we must be sensitive to when we are developing rural employment policy.

The Convener: Thank you very much. We will now have questions.

Irene McGugan (North-East Scotland) (SNP): I was enormously encouraged by some of the conclusions that Andrew Cumbers has come to and the direction in which he seems to be pointing us and policy makers. It is important to consider issues that have caused difficulties in the past and on which policies may not have worked as well as they should have in promoting rural development and stimulating rural economies.

As someone who established one of the best-practice initiatives in this document, I agree that competition, the narrow focus on specific targets

and the devaluing of social aspects of projects conspire to make progress difficult. It would be better if there was an acknowledgement that social mobilisation and social infrastructure were the most important factors and not an add-on to an economic focus and if competition was ruled out and there were improved ways of apportioning funding. Many people say how they have had to tailor the work that they wanted to do so that it met the specified criteria—often by more than one funding source, which is another issue. Your conclusions are sound and, from my experience, I would say that those are the ways of making progress in rural development.

Dr Cumbers: Thanks for those comments. Building up the social infrastructure of rural areas also has a longer-term economic gain. We often get tied up with the idea of competitive advantage and competing globally but, to get the best results from scarce public resources, it is often better to examine the areas of social need in a local economy. It is often possible to create jobs by addressing the social need, which takes people off the unemployment register and means that they pay taxes rather than being paid benefit—such policies have economic benefits.

Dr Elaine Murray (Dumfries) (Lab): I am impressed by the documents; they were interesting to read and we will want to follow up many of the issues that they raise.

I was interested in the differences in success in the different rural areas. As I represent a constituency in the south of Scotland, I was interested that that area seemed to be doing less well. That reinforced what the committee heard from Scottish Enterprise and Highlands and Islands Enterprise, when we briefly probed the different approaches that were being taken in different areas. Can lessons be learned by local enterprise companies, HIE and Scottish Enterprise about strategies that are more successful than others in rural areas? Are the differences in success a reflection of the different amounts of European funding that are available to different areas?

Professor Shucksmith: The results of the analysis are interesting. Some regions have done worse than might have been expected, given their industrial mix. Part of the reason for the south of Scotland doing less well is that the textile industry in that area was so badly hit—much worse than the textile industry generally was. However, the reasons for the difference have not been well researched. We do not really know what makes an area successful; research is under way on that.

The importance is emerging of the softer factors, such as networking, capacity building and social entrepreneurial skills as well as narrow business entrepreneurial skills. I am not clear to what extent

Scottish Enterprise would address those issues. In its evidence to the committee, it argued that there was not much difference between its remit and that of HIE, because it could do whatever it wanted, even though it did not have a social remit. I am not clear what that means in terms of implementation. It would be interesting to pursue that further.

Dr Cumbers: Given the resources that are spent and the way in which the system of enterprise support has operated in the past 20 years, it seems that the Borders might have suffered from not having had the independent enterprise system that the Highlands and Islands has had; it has perhaps suffered from being part of Scottish Enterprise, which does not have HIE's social remit. I am not saying that Scottish Enterprise has forgotten about the Borders, but I do not know whether the cluster strategy that has been at the heart of its approach works in the Borders. I suspect that some issues of rural need might not have been addressed, not because of a deliberate policy, but because the Borders has fitted in with urban regions within the overall Scottish Enterprise strategy. Perhaps the one-strategy-fits-all approach does not work in the case of rural Scotland.

Dr Murray: I should add that, in my view, the cluster strategies that have been progressed quickly are those that are relevant to urban areas—for example, the food and drink cluster strategy is undeveloped and has not been implemented.

16:30

Cathy Peattie (Falkirk East) (Lab): Thank you for the report—I am quite excited by it. I agree that if we are to do anything serious we need a bottom-up approach, but that needs community development support—it is not a quick fix. That has been the problem. Even when there have been good projects, they have lasted for only two years; they have been difficult to sustain because funding has not been available. One cannot have local collaborations and partnerships unless one involves local communities. On several occasions when we were gathering information, I was concerned at the lack of local community involvement, although I know that voluntary organisations such as Community Service Volunteers have been involved in some of the meetings.

I am hearing positive things. We need to look at training schemes where people can work and train at the same time and which deliver—albeit through distance learning—a qualification that is marketable in local communities. People have certainly talked about training young people and others and keeping them in jobs in their areas and

communities. There are challenges in that, but we hear of them only when we speak to local people and local organisations that have a vested interest as stakeholders in their communities. I welcome some of what is in the report, but I will probably come back with loads more questions.

On European funding, even in relation to LEADER, it is difficult to provide training that leads to a qualification, for example—academic qualifications cannot be provided through LEADER. That is a problem when we are training young people. European funding for voluntary and community organisations, or for partnerships, can be a boost, but it is also a problem—because of the cash-flow issue, one is working in deficit all the time. That is hard enough for a large company, but it is even harder for a small local initiative. The challenge is to get away from European funding or the quick-fix approach. That is important if we are to move forward with a different approach. I will ask more questions, but thank you so far.

Professor Shucksmith: I would like to add a couple of points. Time scales are well established as one of the major issues. Even LEADER works on a four or five-year plan, and it usually takes the first year or so of that to get the funding allocated. The programme ends up lasting for approximately three years, when all the research suggests that things take much longer than that. One of the main writers on this topic looked at which areas of Italy do well and which do badly; he looked at that over the whole century, not just over the past five years.

One of the problems is that the schemes are always evaluated at the end of those three or four years. The evaluation always says, "It is too soon to tell. The effects will be long term, if at all." However, nobody is funded to examine what the effects are 20 or 30 years later. I am convinced that some initiatives, such as the community co-operatives in the 1970s, that failed as businesses nevertheless left a legacy of skills, entrepreneurship and networks that have come to fruition in later schemes such as LEADER. I would dearly like to document that properly.

Cathy Peattie: You are right. On-going monitoring and evaluation would identify the softer outputs and measure the quality effects in communities. People who have been involved in a number of projects move on to other things, but that is not often measured—monitoring is done over two or three years or at the end of a scheme or project. An on-going stakeholder approach to evaluation is vital.

Professor Shucksmith: You also mentioned the funding issue. That would bear further scrutiny when we have our other witnesses. I am aware from contact with LEADER groups that raising matching funding has been a major difficulty.

Moreover, it transfers power to anybody who can provide that matching funding, so that the LEADER group or the local action group may lose control over what it is trying to do and its agenda may be captured by those who can provide scarce matching funding. That is not necessarily how LEADER is applied in other European countries.

Richard Lochhead (North-East Scotland) (SNP): In your last answer you began to address a point that I was going to make, which was in regard to your recommendation that we need a

"systematic review of various policy initiatives and their impact across rural Scotland".

One of the things is that every time there is a crisis in rural Scotland that affects rural industries, Governments tend to trot out more glossy consultation documents and policy documents, and a lot of sceptical people think, "Have they learned from the mistakes of the previous glossy document to find out if this glossy document has anything worth while in it?" How do we get round that?

In a practical sense, how can you evaluate policies in rural Scotland? What are you looking for? How do you do it if you are the Government? If you were the Government tomorrow, what would you do? Would you hire some academics from the Arkleton centre for rural development research to analyse what has been happening in rural Scotland to see if policies have been successful, or would you set up a policy unit in the Government with the sole purpose of looking at the success of policies? How do you find out how successful past policies have been?

Dr Cumbers: It has been acknowledged for quite a while, not just for rural Scotland but for Scotland as a whole, that the statistical information that we have on economic development is fairly poor. The gathering of statistical information in order to audit performance in different areas is one of the things that the Enterprise and Lifelong Learning Committee might look at. I know from some of my other work on the oil industry in the north-east of Scotland that it is difficult to get any rigorous figures on employment in the oil industry across the whole of Scotland or the UK. We lack information on that kind of basic economic indicator; we need more research. There is a need for a strengthened central unit within Scotland that can gather that kind of information. Within that unit, you may want to develop a body that gathers information on rural areas.

Mark talked about Italy. A lot of research has been done on an area called the third Italy, which is a semi-rural area of Italy that has done well economically, against what we would expect in recent years. There is a need for more comparative research on what goes on in other

rural parts of western Europe, on areas that have similar problems to Scotland. I am thinking of rural Scandinavia, particularly in countries such as Norway. We need to know a lot more about the policy and practice in those places. I would not say that I am pleading for more money for Arkleton, but this is a key issue that needs to be addressed.

Professor Shucksmith: I would like to add to that, so that we do not get lots of money thrown at us immediately after this meeting. We have one EU project, and another one about to start, which are addressing this issue in a comparative way between different countries. We will be looking at why some rural areas are successful and others are not, and the role of social capital in that. We may have some answers in a little while.

However, that is not the same task as evaluating the success of a particular policy. In the white paper "People, Prosperity and Partnership" in, I think, 1995, the Scottish Office commissioned us to try to establish whether data were available that would allow the objectives of the paper to be monitored. We produced a report that showed that hardly any of the objectives could be supported by statistics, either in establishing a baseline or in continuing to monitor their success. That was frustrating. The implication is that, in order to measure the success of policies, a different framework of data collection would be required.

Lewis Macdonald (Aberdeen Central) (Lab): I extend a particular welcome to Andy Cumbers. I think that it is the first time since polling day that three of the candidates from Aberdeen Central have been together in the same room on parliamentary business. Also, Andy has provided a lot of information that will be useful to the committee.

I would like to focus on the point that you make in your summary about competitive bidding. You point out that the process favours rural areas that already have a fair degree of community initiative over those that do not. That makes sense, but I am not sure that what you said to the committee today had the same meaning. I think that I heard you say that peripheral and poorer areas were disadvantaged by the process. However, the table that you quote from shows that the western isles do exceptionally well, whereas the area around Inverness and Moray, which is well off by Highland standards, does less well. Does the competitive bidding system reward community initiative? If that is the case, it might be more beneficial to the more remote areas.

Dr Cumbers: I am using the word peripheral in an economic sense of the word, rather than in a strictly geographic sense. I am talking about areas that are disadvantaged in terms of economic and social performance. The reason that those communities fail is often because they do not have

the social networks that other places have. Orkney is obviously peripheral in relation to Edinburgh, but is well connected to the global economy. That is because it displays a great deal of entrepreneurship and has a close social network. Other areas such as Moray, Badenoch and Strathspey are not doing so well and that is probably because they do not have the closely integrated social networks that would allow them to put together successful bids. That is the implication of the table.

Lewis Macdonald: I understand, however, that Moray is doing relatively well in economic terms, although it might not be getting its proportional share of Highlands and Islands Enterprise funding in terms of employment, unemployment and the other things that are mentioned in interim report 3. The area around Inverness is doing better than areas such as Lochaber and Argyll.

Dr Cumbers: One problem with this discussion is that we are falling into local labour market definitional areas. While Moray might be doing well, I am not sure whether areas within it, such as Strathspey, are doing as well.

Professor Shucksmith: Success in the bidding process might not have any relation to need. It seems that success is dependent on people getting together well and knowing what they are doing. That might happen in areas of great need—the Western Isles is a case in point—but it can also happen in prosperous areas.

A report funded by the Joseph Rowntree Foundation will be published in July. It examines rural regeneration strategies and partnerships in particular and focuses on two areas on mid-Wales and one area in Shropshire. Obviously, those areas are not in rural Scotland, but the issues are the same. One of the main findings of the research was that there is an uneven geography of regeneration. Some areas have dozens or even hundreds of regeneration partnerships—one area of mid-Wales has more than 200—but other areas have none. The report argues that partnership-rich areas and partnership-poor areas have emerged. While we want to reward community initiative, we must also try to build the capacity to put partnerships together in partnership-poor areas.

Lewis Macdonald: With regard to Professor Shucksmith's points about changes in agriculture and fisheries employment, does the evidence suggest that, in areas such as the rural north-east, the pattern of employment is becoming more like that in the Highlands and Islands, with more part-time work?

being lost while there is a small increase in part-time jobs and a considerable increase in casual employment relating to lambing and harvesting and so on. In another sense, the two areas are different. A higher proportion of people work in agriculture in the Highlands and Islands than in the north-east.

Alasdair Morgan (Galloway and Upper Nithsdale) (SNP): The report mentions that payments under the common agricultural policy are declining. That is true, but I think that they are still massively greater than the payments that we have been talking about under LEADER and the various other objectives. How effective are those payments? Clearly, they have a beneficial effect on the gross domestic product of an area, but I am not sure how permanent their effect is. Pound for pound, do they deliver as much value for money as payments under the CAP?

Given the drivers that you have been talking about, how permanent will a successful solution to the problem of an inadequate social network be? Will that area be able to resist new drivers for further change, or will a continuing stream of funding be necessary as new challenges arise?

Professor Shucksmith: Your two questions are related. You ask whether projects such as LEADER have as much of an effect as the funds from the CAP. The CAP has not encouraged employment to be retained in agriculture. In fact, I once heard an official of the National Farmers Union refer to the CAP as a rural exit policy because it rewards intensification, capital labour substitution and mechanisation. It might have been directed at trying to maintain incomes, but it has not been associated with keeping labour in agriculture. That does not mean that there are not huge sums of money being made available—the last time I checked, each farmer in Scotland was being subsidised to the tune of something like £20,000 a year. That is probably more than the average farmer's net income.

The CAP has not supported or tried to promote employment in agriculture, whereas the structural funds and LEADER are more directed towards the promotion of sustainable employment. When they are concerned with training, skilling and human capital and so on, they will build transferable skills that could allow people to adapt to changes in employment opportunities. When they are concerned with the promotion of enterprise, they will provide the foundation for something sustainable.

On the other hand, when activities under the structural funds focus narrowly on job creation—which often figures in the objectives—the evidence, from urban Scotland at least, is that a lot of the jobs are temporary and disappear once the funding that supports them has gone. I would

16:45

Professor Shucksmith: In that sense, yes. In agriculture, throughout the UK, full-time jobs are

therefore argue that by looking more to the future and trying to build capacity, structural fund spending could have an even better effect on sustaining employment. However, structural fund spending is more likely to sustain employment than the common agricultural policy.

Dr Cumbers: I agree with Mark. It goes back to the top-down against the bottom-up approach. If we consider how the common agricultural policy operates and how the structural funds operated until recently, one of the reasons that they have not been successful is that there have been interventions from the top down—admittedly, as well as quite a lot of resources—without identifying well enough what the local needs and demands are.

Programmes such as LEADER have their problems, but they are based on encouraging community initiatives from the bottom up. The common agricultural policy provided resources, but did not encourage innovation from farmers or whoever was being supported. A lot of the new policies that seem to work best, such as LEADER, are the ones that foster a sense of entrepreneurship or are better at building a sense of community and involving local actors, which can lead to positive gains. Arguably, therefore, there are better ways to target funding than the massive initiatives from the top down.

Alex Fergusson (South of Scotland) (Con): I had a line of questions, but want now to follow up on Alasdair Morgan's question. When you talk about the drop in farm labour, do you mean direct on-farm labour or agriculture-related labour? There is a huge difference.

Professor Shucksmith: I am talking not only about hired labour, but farmers and occupiers.

Alex Fergusson: But you do not include contractors and off-farm workers who, with the drop in farm labour, nowadays do a lot of the work. Their numbers have probably risen in past years.

Professor Shucksmith: Indeed. That would account for part of the increase in part-time work.

Alex Fergusson: So that has all been taken into account.

Professor Shucksmith: Yes.

Alex Fergusson: I have another supplementary question. I accept what you said about the effect of CAP on farm labour. However, two or three years ago there was an interesting report by Professor Ronald Wilson of the University of Edinburgh, which examined whether direct headage subsidy gave an effective kick start to the rural economy. The report came out very much in favour, so while it may not have a huge effect on on-farm labour, it obviously has a positive effect on the rural economy as a whole.

I will get back to what I wanted to ask you.

Professor Shucksmith: First, let me agree with that point—it is good that you pulled me up on it. When one talks about the common agricultural policy, one inevitably generalises, because there are so many different elements to it. My remarks were largely in relation to price support and incentives to modernisation. The headage payments are rather different and tend to benefit a very different group of farmers. The payments are seen much more positively.

Alex Fergusson: That is a fair point. There are different aspects to the CAP.

I welcome your recommendation on the need to focus more on stimulating local initiative, particularly within narrowly defined targets. I represent South of Scotland. One of the things that I have noticed is that different people view their local enterprise company in very different ways. Is that the case throughout the regions of Scotland or only in the two LEC areas that I happen to be in? Do people have noticeably different views of the entrepreneurial aspect of their local enterprise company? Frankly, some people seem to see the LEC as a hindrance rather than as a help, whereas every LEC would like to think that it is as a help. There are obviously problems.

Dr Cumbers: My experience, not just from rural Scotland but from economic development studies generally, is that if you talk to a LEC and to a small business man, you will get almost diametrically opposed views of how successful the LEC is.

The serious point is that the evidence seems to suggest that the Borders and the south of Scotland have been disadvantaged by falling within the remit of Scottish Enterprise, particularly in terms of encouraging new firm formation and small business development. Up until very recently—things are now changing—Scottish Enterprise has made a big commitment to inward investment and attracting multinational corporations, which suits the needs of the central belt and urban lowland Scotland, but does not necessarily tie in with the needs of the Borders or the other rural areas within Scottish Enterprise's remit. Highlands and Islands Enterprise has been able to spend a lot more of its resources on fostering small firm development.

That is one of the reasons why there are more grumbles about the LECs. The Scottish Enterprise network is decentralised, but the system is still driven by the central body. I have not seen any research about this, but I would tend to suspect that there is a better view of the way in which the enterprise system operates among people from the Highlands and Islands than among people from the Borders or the south of Scotland.

Alex Fergusson: Would you go so far as to say that that could be the reason for the figure that you gave, which showed that the south of Scotland is doing worse than any other region?

Dr Cumbers: The figure is to do with many factors. The blow to the textile industry has been significant. Interestingly enough, it is the factories that have been brought into the south of Scotland through inward investment programmes that seem to be the ones that are closing. However, there is a whole different set of issues about the terms under which companies are invited into the UK economy as a whole, not just Scotland, which may explain why it is easy for inward investment firms to leave quite quickly.

Professor Shucksmith: I do not know of research that has examined this point, so we are not on the firmest of foundations, but it is as well to remember that Scottish Enterprise is responsible for the north of Scotland outside the Highlands and Islands, which has been doing better than the average, as well as the south of Scotland, which has not. One has to take that into account when examining the differences, although Scottish Enterprise did not mention in evidence its responsibilities in areas north of the central belt.

The Convener: Ladies and gentlemen, we have come to a logical conclusion of this part of our evidence gathering. On behalf of the committee, I thank Professor Mark Shucksmith and Dr Andrew Cumbers for coming along and presenting the interim reports to us. It has been very interesting, as I am sure our witnesses realise from the number and level of questions. Thank you very much indeed. We look forward to seeing you again in the near future.

We need to move back into private session for item 3 on the agenda. I propose that we take a minute to tidy up before doing so.

16:57

Meeting continued in private until 17:40.

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