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Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 15 May 2012

Session 4

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
9th Meeting 2012, Session 4

CONVENER

*Christina McKelvie (Hamilton, Larkhall and Stonehouse) (SNP)

DEPUTY CONVENER

Hanzala Malik (Glasgow) (Lab)

COMMITTEE MEMBERS

*Clare Adamson (Central Scotland) (SNP)
Helen Eadie (Cowdenbeath) (Lab)
*Bill Kidd (Glasgow Anniesland) (SNP)
*Jamie McGrigor (Highlands and Islands) (Con)
*Aileen McLeod (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Neil Findlay (Lothian) (Lab) (Committee Substitute)
Lynn Forsyth (Scottish Government)
Alex Neil (Cabinet Secretary for Infrastructure and Capital Investment)
Shane Rankin (Scottish Government)

CLERK TO THE COMMITTEE

Ian Duncan

LOCATION

Committee Room 1

Scottish Parliament

European and External Relations Committee

Tuesday 15 May 2012

[The Convener *opened the meeting at 14:00*]

Decision on Taking Business in Private

The Convener (Christina McKelvie): Good afternoon, everyone, and welcome to the ninth meeting in 2012 of the European and External Relations Committee. I request that all mobile phones and electronic devices be switched off, please. We have received apologies from Hanzala Malik and Helen Eadie. Neil Findlay has kindly substituted for both of them—I welcome Neil to the committee.

Agenda item 1 is a decision on taking items 4 and 6 in private. Is the committee content to take those items in private?

Members *indicated agreement.*

European Union Structural Funds

14:00

The Convener: Our main agenda item is on EU structural funds. I welcome to the committee Alex Neil, the Cabinet Secretary for Infrastructure and Capital Investment. I also welcome Shane Rankin, deputy director, and Lynn Forsyth, senior policy officer, both from the European structural funds division of the Scottish Government. I believe that the cabinet secretary does not have an opening statement but wants to go straight to questions.

The Cabinet Secretary for Infrastructure and Capital Investment (Alex Neil): Yes. That would be fine.

The Convener: Aileen McLeod will open our questions.

Aileen McLeod (South Scotland) (SNP): Good afternoon, cabinet secretary. The overall focus of the committee's inquiry has been to consider lessons learned from the current round of structural funds with a view to seeing what could be improved for the new round of programmes from 2014 to 2020. What does the Scottish Government think are the lessons that can be learned from the current programmes, and what could we do differently the next time around?

Alex Neil: There are a number of lessons to be learned. As each swathe of programmes comes along, we always build on previous experience. Having delivered and evaluated some of the programmes in a previous life, I think that there are some common threads running through those that have been most successful.

First, the most successful programmes are those that have been much more locally conceived, locally run, locally controlled and locally delivered. To some extent, the LEADER programme was good at identifying the benefits—particularly in rural communities—of having a devolved way of running the programmes, so that they were designed and run to address the problems in the areas that they were trying to help. That has been very important.

Secondly, in terms of process and delivery, involving the community planning partnerships has been much more successful than the previous situation in which we did not involve them so much. The benefit of the community planning partnerships is that they bring all the key players together to get a much more joined-up approach than has been the case in the past. The downside is that there is probably not enough involvement of the third sector in the community planning partnerships. One of the lessons for the future is that we should try to have more involvement of third sector organisations in the community planning partnerships.

There is no doubt at all in my mind that we must move towards a much more integrated approach both within the structural funds and between the structural funds and other funds being made available through the EU. I will give a good example of that. The resources attracted to the rural development programme, which is a subsidiary of the common agricultural policy, are comparable to the resources available to the structural funds. If we had more joined-up design and delivery of programmes across those two streams of funding, as an example, in many areas we could deliver more in return for the money that is spent. If I were looking to the future in terms of the process of delivery, greater integration would be top of my agenda.

Aileen McLeod: How do you think that we could use those lessons to get the best deal for Scotland out of the current negotiations?

Alex Neil: We are working with the European Commission and the United Kingdom Government to try to drive together the integration agenda, which is not moving as fast or as far as we would like. There is no doubt at all that that is a good way of proceeding, because the more integrated the approach, the better.

It is always difficult politically to deal with 27 countries—that will no doubt be 28 countries after 2014. Getting the degree of integration that we would like is probably not possible. We are on a direction of travel on integration that will perhaps not be as fast as we want or go to the full destination that we want in the next period. However, with our friends in the other 26 nation member states, we are travelling on the road of integration of the funds.

The fact that funds—particularly the structural funds—are likely to be reduced because of the reallocation of funding, particularly to newer members, makes it even more important that we get a bigger bang for the buck.

Bill Kidd (Glasgow Anniesland) (SNP): I will return to something that you said about delivery approaches and CPPs. In Dundee a partnership approach was taken, but in Glasgow a contract model was initially used, followed by a hybrid of the contract model and the partnership approach. The evidence that we have been given is that voluntary organisations and others prefer a more consistent approach to project delivery, which you have mentioned. Have you brought voluntary organisations together with the Scottish Government and the deliverers—the CPPs—to try to get one approach to how money is used?

Alex Neil: We have on-going engagement with all the stakeholders that are involved in the existing programme, which still has a couple of years to run. We are also consulting them on the best way forward for the 2014 to 2020 programme. We are bringing together groups of people and we will continue to do so as we move further down the road of negotiation and eventually to a more detailed design and delivery scenario. European programmes also undergo a process of evaluation. We have learned lessons from the evaluation process down the years.

There is a distinction between consistency of approach and integration. There is sometimes a consistent approach in programmes, but that is not necessarily integration. We need to distinguish between those two aspects.

We are very much in favour of integration, so that people can take an integrated approach in Glasgow, Dundee, Dumfries and Galloway or wherever. I want consistency in the common provisions of all the programmes, for example. At the moment, every set of programmes has its own provisions. Moving towards a common set of provisions across the board would make life a lot easier for everybody in every part of the chain that is involved in European funding. However, I do not want to get to the point of becoming overly prescriptive.

I said that local delivery and the design of programmes are extremely important. I would like consistency in the bureaucratic element—the common provisions—but I would not like the way in which a programme is delivered in Dumfries and Galloway to be how it is delivered in Glasgow, Dundee or the Highlands and Islands, because every locality and every programme in a locality has its own character. We should have consistency where it is required, particularly in bureaucratic provisions, but we should not stifle innovation by enforcing a prescriptive way of delivering or designing programmes that must be followed across the country.

Bill Kidd: Are you looking for a common code of practice? Will the approach be to provide guidance rather than guidelines?

Alex Neil: Given the audit requirements in the European Union, I do not think that we will get guidance. We are bound to get strict guidelines and rules. That is similar to the situation with primary legislation, secondary legislation and guidance. For example, we issued guidance on our housing allocations policy, but the statutory requirement is much more limited than the guidance. That is the same with European programmes: there is a hierarchy of enforcement in which the statutory provisions at European level are supplemented by guidelines and guidance. However, there should be a degree of choice on whether to go down the partnership route, the contract route or some hybrid of the two. I am inclined to leave such decisions to the people on the ground rather than the Government always being very prescriptive.

Neil Findlay (Lothian) (Lab): My brief experience of dealing with EU funding related to projects that involved multiple—or potentially multiple—funders. The complexity that is involved in submitting applications, the bureaucracy and the hoops that must be jumped through in order to access cash are often horrendous and off-putting, particularly for voluntary organisations. How can we improve the ability of such organisations to access funding? How can we clear away some of the cluttered bureaucracy that prevents that from happening?

Alex Neil: There are quite a lot of questions in there, and I will try to answer them all.

I am on the same page as Neil Findlay on trying to declutter the bureaucracy. The CPP model is helpful in that regard, because it brings everyone—all the key players, and very often most of the key funders and the agencies that have access to funding from other sources—round the table. It is a good way of co-ordinating the design, funding and delivery of the programmes. Neil Findlay is right that, too often, the bureaucracy in European programmes is way over the top. We are working with our colleagues in London and Brussels to address that.

If we end up with a common set of provisions for programmes instead of each programme having its own provisions, that will do two things. First, it will make it much easier for people to administer and understand the programmes, and secondly, it will allow more flexibility and joint working between programmes and different funding sources from Europe.

One issue—this does not affect only European programmes—is the way in which we have been going in the past 20 or 30 years, in that everyone in the public sector is to be the funder of last resort. What we need is a funder of first resort to get things kicked off.

As members will know, since he became Cabinet Secretary for Finance and Sustainable Growth, John Swinney has been engaged in streamlining all our areas of responsibility so that people do not have to spend a lot of management time and resource on shopping around from year to year to put a funding package together. We are trying to reach a better position in which funding packages are for longer than one year and are properly managed. At the end of the day, however, the money all comes from the same source: the Treasury or Brussels.

Neil Findlay's final, very valid point was about cash flow. Too often, people have had to start European programmes without the certainty of knowing exactly when they are going to get their money back. That can put a strain on any organisation, but it particularly affects the voluntary sector.

Neil Findlay: That is fine, but the wheels of the EU do not move very quickly. They might move very quickly this week, but they do not usually do so. When are we likely to see significant progress in that regard?

Alex Neil: On the common provisions, Lynn Forsyth has been working with officials in Brussels to point out some of the easier ways to get more common sense into the system. For example, synchronising the financial years for all the programmes would be of major assistance, especially if that can be done along the same lines as our financial year. However, even if a common European fiscal year was to run from January to December instead of April to March, it would at least be an advantage and a major step forward.

Lynn Forsyth can give you some detailed examples on a range of other provisions. If we can get more commonality and a common set of provisions—or at least as much common provision as possible if we cannot get that far—that would go a long way towards making it easier for people to deliver the programmes.

Neil Findlay: I hear the Tory Eurosceptics howling at the moon already at the prospect of a common financial year.

Alex Neil: I do not know whether Shane Rankin or Lynn Forsyth wants to add to what I said by giving you some examples.

14:15

Lynn Forsyth (Scottish Government): One of the biggest problems at the moment is with the fisheries fund, which requires that a programme is delivered at a member state level. It will therefore be delivered on a UK basis as opposed to the other funds covered by the common provision, which will be delivered on a Scottish basis. A local authority that has a fisheries project therefore cannot integrate it into its structural funds or its rural development programme.

Alex Neil: We know that you do not have many fisheries problems in West Lothian, Neil.

The Convener: You never know. I heard that there is a really good trout farm not that far from there.

Could you expand a wee bit on what you said about simplification in your very helpful letter to us? We have just talked about simplifying the application process at EU level. Not so much the local authorities, but certainly the stakeholders from the third sector that we have heard from face bureaucratic barriers when trying to access the funding once we have it here. I would like to know about simplification at that level. Could you also elaborate on the work that you are doing to make the process a bit more straightforward for the organisations that are accessing the money?

Alex Neil: I will ask Shane Rankin to go into some of the detail, but we have two conflicting objectives here. Number 1 is that we must meet the EU's audit requirements, but we are also trying to make life as easy as possible for the people at the front end of the programmes, particularly where funding is concerned. It is about getting a balance between the two, because the audit requirements are quite tough these days. They go into quite a lot of minutiae if they decide to have a thorough look at programmes.

We therefore must ensure that we have the audit requirements in place, but we must do it in such a way that we keep life as simple as we can for the delivery agencies.

Shane Rankin (Scottish Government): The cabinet secretary has alluded to a number of the issues already. The integration that we seek to encourage and the common provisions that the EU seeks to encourage across the four main funds in Europe raise some significant challenges. Lynn Forsyth and some of our Welsh colleagues have been working to try to identify for the major directorates general in the Commission where the regulations for the separate funds contradict each other, which they do quite seriously.

Mr Neil also alluded to issues to do with the audit plans and the financial year. At one level, it would simplify things to work to the same financial year, but another aspect of the regulations is that structural funds programmes are not closed until they come to an end, which means that they are not closed for seven years. That means that any unresolved issue hanging over a voluntary organisation, such as an audit or other issue that might lead to money being recovered, can hang over the organisation for a number of years and can lead to some serious consequences at the end of the programme or even after it. However, the rural programmes close off their accounts annually, which means that they are done and sorted and cannot be reopened and revisited. It is that kind of reconciliation and alignment of the regulations across the funds that would help to simplify the management from the point of view of both the Government and individuals.

The contract versus partnership issue points up the need for a more strategic approach at the Scottish Government level to choosing what to spend the money on and identifying delivery vehicles that can take the legal responsibility and therefore the audit and compliance responsibilities for the lower-level partners, while at the same time working with the local partners to devise the local strategy that is relevant to Dundee, Glasgow or wherever. That matrix of issues is starting to need to be connected more effectively than it is by the Commission's regulations at the moment.

We are trying to influence things to ensure that smaller organisations can realistically and reasonably apply for European funding because, in the current structural funds programmes, a financial threshold of £0.25 million was put on applications to ensure that smaller organisations that were looking for small amounts of money were not unrealistic about the management and audit burden that they would be taking on. On the other hand, the LEADER programme, which is a rural programme, did not have such thresholds, so the grant that is available might be anything down to £50,000, £30,000 or the like. However, the audit burden on the LEADER programme is enormous and it can strangle the project sponsors, who can get into it without realising what they are doing. It is about finding a practical way forward so that people use the funds effectively and do not become strangled in process.

The Convener: That is one of the main issues that a lot of stakeholders have discussed with us. They commit staff time and money to dealing with the process rather than delivering the front-line service. I note that the cabinet secretary's letter to the committee referred to a "more integrated" approach and greater partnership.

Some opportunities are lost, because one organisation might be able to deliver part of a programme and another organisation could deliver the other part but there is no strategic direction to pull that together in a joint bid. If we are truly going to integrate, we need to organise things a bit better and make it much more attractive for smaller organisations to get involved. We must also make them feel that they can focus on front-line delivery rather than use the funds to manage the process.

Alex Neil: We are trying to tackle that and, to be fair, I think that the EU is trying to tackle it through the requirement for a more simplified and integrated territorial approach, so that the process is easier. It would also help that process if we become more outcome based than we have been in the past.

We are under no illusions. As Neil Findlay said, the boat does not always travel very fast when we try to move the EU Commission and the bureaucracy. However, we are doing everything that we can within our area of responsibility. For example, on the stuff that Shane Rankin referred to, if all programmes across the board were closed off within a year instead of after seven, if all programmes had the same audit provision and the same financial years, and if every programme had to be outcome based, those common threads would go a long way to making it much easier to design, deliver and audit European Union programmes.

Bill Kidd: I have a quick question about building on the successes that we have had with organisations and companies applying for funding and learning from the failures of those that have not been successful. Simplification has been mentioned and the bureaucratic obstacles are being looked at. Does the Scottish Government have a programme to identify the failed applicants who did not receive or secure funds and have not yet learned why they failed, and bring them together with those who have been successful so that they can discover from them the best routes forward?

Alex Neil: The strategic delivery bodies already have an instrumental role in trying to do that. They try to ensure that better practice is shared among all the key stakeholders, including successful and unsuccessful applicants. Obviously, performance varies a bit between, for example, community planning partnerships. We are trying to find ways to ensure that the ones that adopt the best practice are copied by the ones that are perhaps not so good, so that they can all learn from each other. That ensures that the ones that have been unsuccessful in the past have a better chance of success in the future.

Clare Adamson (Central Scotland) (SNP): In evidence, we heard much about there being no clear direction as to where expertise on accessing new funds is being built up in Scotland. People asked whether that should be done strategically at Government level by civil servants, and whether Scottish Enterprise has a role to play. How can capacity and knowledge be built up and used in a strategic way?

Alex Neil: Are you talking about capacity for Scotland to access EU funds or for people in Scotland to access the EU funds that have been allocated to us?

Clare Adamson: I am talking about ensuring that Scotland maximises access to new funds. There seem to be a lot of streams that are investigating the position, without there being a central point of expertise.

Alex Neil: Shane Rankin's unit is the central point of expertise, and Shane has a network of people throughout Government, because the Scottish Government is taking a much more joined-up approach. For example, people in the rural affairs department under Richard Lochhead are working with my department, which has responsibility for strategic funds, and with the education department's science function, given that a lot of innovation funds are becoming available. The thematic funds will be increasingly important in Europe. Groups meet in the Scottish Government and co-ordination is much better than it has ever been. It is about not just co-ordination but sharing experiences and expertise.

In Europe itself, through the network that Scotland Europa has built up, we have got our teeth into parts of the European Commission that we perhaps did not have access to before. The Scottish Government has invested quite a bit of resource in having permanent representation in Brussels, and of course there is much more interaction between ministers. I am going to Brussels next month—I was supposed to be there last week, but I could not go, for a variety of reasons. Last week alone, Fiona Hyslop and Shona Robison were in Brussels and I was due to be there. Richard Lochhead is in Brussels every other week. Internally within Scotland, and in the context of Brussels and the European network, I think that we are way ahead of where we were a few years ago.

We are also more focused about what we are trying to achieve. For example, a major initiative that is under discussion for the 2014 to 2020 programme is the European connectivity fund, which could be up to €40 billion—they will not be Greek euros, I think. The fund is for connectivity in three areas: broadband, energy and transport. I understand that the UK Government, which has a general campaign to reduce the EU budget, is not particularly keen on spending that money on connectivity but, for a country such as Scotland, the fund would present a huge opportunity to get investment in all three areas.

The First Minister is in Norway today, where one of his main topics of conversation will be the new power cable between Peterhead and Bergen. Norway, of course, is not a member of the EU; it is a member of the European economic area. Power cabling between Scotland and continental Europe presents a huge opportunity for jobs, exports and investment. We are focused on ensuring that we support the connectivity fund in principle and that we network with other nations and regions in the EU to promote the fund, so that it is part of the final deal—with an increased budget, if possible; €40 billion sounds like a lot, but it is not a lot across 27 geographies. Indeed, we have almost ready-made potential projects to submit when we know what the criteria will be.

The fund is a good example of an area in which we have a clear idea of opportunities in Europe that our friends in London are perhaps not pursuing so vigorously.

14:30

Clare Adamson: Is that message being filtered down to the people who will be applying for these funds? Is that information getting down to the community planning partnerships so that they can incorporate it into their strategic plans?

Alex Neil: It will be, once we know the final shape of the programmes. Obviously, we keep local authorities and community planning partnerships abreast of what is happening in terms of the development of the 2014 to 2020 programme, but the time to have serious discussions with them is once we are much nearer the final decision making about the shape of the programmes.

Jamie McGrigor (Highlands and Islands) (Con): I apologise to the cabinet secretary and the committee for not being here at the start of the meeting, but I had to attend the Public Petitions Committee to speak about a petition on the Highlands and Islands. It will come as no surprise to the cabinet secretary to hear that my question is about the Highlands and Islands, too—however, it concerns the lowlands and the uplands as well.

Until early 2012, the delivery of the Highlands and Islands and the lowlands and uplands Scotland programmes were managed by Highlands and Islands (Scotland) Structural Funds Partnership and ESEP. Now, both programmes are managed by the Scottish Government. Why is that? Is the Scottish Government confident that the local themes will be promoted as well as the national ones through this more centralised approach? Have you consulted interested parties? If so, what was their response to the decision?

Alex Neil: There has been no change in responsibilities; the Scottish Government has always been responsible for managing the programmes, and those two organisations assisted in those areas. However, because we are near the end of the current programme—my announcement last week of a sum of up to £25 million for youth employment represented the allocation of the last of the money—it made sense to bring the expertise in-house. We have not lost the expertise; it has been brought in-house. We believe that bringing it in-house, with all the other expertise that we have, will strengthen the team numerically and strengthen the experience of the wider team in the Scottish Government.

Jamie McGrigor: You do not consider that approach to be too broad brush to deal with the problems that the various regions face.

Alex Neil: No. To use Neil Findlay's phrase, we are trying to declutter the process. Because of the important and increasing role of the community planning partnerships, we do not see the need—in a country of 5 million people—for intermediary organisations between the Government and the community planning partnerships. We did not want to lose the expertise that is in the two organisations, so we decided to bring it in-house, which is a plus for them and a plus for us. That helps to streamline the administration, the policy development and the canvassing and lobbying campaign in Europe for the kind of funding that I was referring to. Our approach is to devolve the policy making and the delivery and design of programmes to the community planning partnerships to as great an extent as possible, because they know best what is needed for any particular area.

Aileen McLeod: Given that the Highlands and Islands have been mentioned, it would be remiss of me not to mention the south of Scotland. As a member who represents a large rural region, I am only too aware of the importance of European funding as a vital source of economic and social support for such areas.

In its submission, the south of Scotland alliance highlighted the point that priority 4 under the LUPS programme, which concerned rural development, had been challenging due to the narrow and restrictive nature of the eligibility criteria. How does the Scottish Government intend to assist south of Scotland areas in the future programme? The cabinet secretary will remember that there was a long-standing campaign by Dumfries and Galloway Council and Scottish Borders Council to form a distinctive region that was eligible for European funding under the NUTS II—nomenclature of territorial units for statistics II—classification.

Alex Neil: Again, we come back to the issue of integration. That is a good example of where a more integrated and flexible approach is needed. One of the problems that we have had in the past is that the criteria have sometimes been too narrow and not flexible enough to deal with the particular situation in the south of Scotland or elsewhere. Earlier, you asked what lessons have been learned. One lesson is that, as far as possible and as far as we are allowed, we will try not to be overprescriptive about the programmes that we are asking to be delivered.

I ask Shane Rankin to go into some of the more specific issues on priority 4 in the south of Scotland.

Shane Rankin: Priority 4 has been an issue for us in the past year or so. We looked hard at that at the last programme monitoring committee, at the behest of members of that committee from the south of Scotland. In essence, the conclusion that we came to was that there has been a degree of competition between funding from priority 4 and funding from the rural development programmes and that a number of fairly significant factors have been in play. Among those factors are the issues of sufficient projects coming forward as well as of match funding being available for projects in the locality. The narrowness of the priority certainly has not assisted projects to come forward in the structural fund programme, but that narrowness is determined by the structural fund regulations and the scope to support whatever needs to be done in rural communities. In past programmes, much more support was feasible for capital infrastructure of one kind or another, but the current programme does not have the same latitude, which means that the building of advance factories and so on cannot be sustained to the same degree.

A number of significant factors have meant that the priority has not been fully utilised. Those are to do with what was going on, what was deemed to be necessary and what we could prove demand for in the localities. We have been successful in arguing the case that, although the traditional infrastructure that we sought in rural areas might not be supported, money can be identified and ring fenced to support digital infrastructure, which has become a significant priority in the past couple of years. Large chunks of the priority and chunks of cash in the Highlands and Islands programme have been identified for digital infrastructure. So the approach is not about moving away from rural areas and depriving them of cash; it is about finding something that will be genuinely beneficial to communities and working within the regulations to achieve that, while not tripping over the rural programme.

The new programme presents us with the opportunity to think about those issues before we get to 2014 so that, as the cabinet secretary said, we have the flexibility to meet the demands over the programme period and a strategy that identifies the things that will make a difference in rural areas.

Aileen McLeod: You say that we are trying to have greater flexibility. Given the current financial and economic climate, there is a need to find more innovative ways of leveraging greater public and private sector investment. The JESSICA—joint European support for sustainable investment in city areas—programme has been used to support urban regeneration. Is there a way to use an asset-backed financial vehicle such as JESSICA to support rural regeneration and to help rural areas to achieve the scale that is required for investment in, for example, digital and transport infrastructure?

Alex Neil: In principle, yes. JESSICA is now known as SPRUCE—the Scottish partnership for regeneration in urban centres. This is probably the first time that the programme has been done on such a scale, certainly in Scotland, so we need to see how it pans out. The first awards to be made by SPRUCE will be announced fairly soon.

I do not see why that model could not be applied to rural areas as well as urban areas; I do not think that it is contingent on operating in an urban area. It is fairly new, involves loan funding and is a combination of Scottish Government and European Union money. It is very much geared towards urban regeneration, but I do not see why we could not have a programme along similar lines for rural regeneration.

Aileen McLeod: Neither do I.

The Convener: Cabinet secretary, some of the voluntary organisations that gave evidence to the committee felt that co-financing had been a difficulty. How can we make it easier and how can it be used more effectively, especially in the voluntary sector?

Alex Neil: Again, it comes back to flexibility, because the problems that the voluntary sector has had relate to the rules that govern co-financing rather than to financing per se.

We would like there to be much more flexibility. The principle of subsidiarity is supposed to be prevalent in Europe but, in some of the rules that we must follow, a degree of subsidiarity would be welcome. The rules that govern co-financing are a good example of a situation in which we could take a more robust approach.

As you know, John Swinney has gone out of his way, even in the most difficult financial circumstances, to protect the funding for social enterprises. We could make much more use of European funds to complement the work that our own social investment fund and other funds are doing in financing projects in the third sector.

A more flexible and commonsense approach to the rules that govern co-financing would be welcome.

The Convener: Would you suggest that co-financing should allow for a more regional approach? You mentioned subsidiarity, and perhaps subsidiarity to the nth degree is the way to address the issue. Is any work being done on how we could achieve that?

Alex Neil: Co-financing could be appropriate at a Scottish national, regional or local level, because it depends on the nature of the project. It is horses for courses. Some projects are very local but could be co-financed; there are some more regional projects—say, a Strathclyde-wide project—that could be co-financed; and there are some Scotland-wide projects that could be co-financed.

The issue is not so much whether the project covers a locality, a region or the whole country; it is whether the rules that govern the project make it as easy as possible to use co-financing as a way of funding projects.

Shane Rankin has passed me a note that says that integrated development plans will do that. The two words to which I come back are integration and flexibility. We need more integration and more flexibility.

Neil Findlay: You mentioned subsidiarity, and I could not let that pass, Mr Neil. It seems that there is a desire for subsidiarity from Europe but the Scottish Government does not pass decision making down. Decision making is being centralised across a range of policy areas. For example, decisions on local government finance and college regionalisation are being taken at the centre. Subsidiarity does not seem to apply when we come down a further stage.

Alex Neil: I am not sure what that has to do with European funding.

Neil Findlay: Exactly, but I could not let it pass.

Alex Neil: Obviously, I disagree with you, Neil. Let us take local government finance. Look at the number of funds that the previous Scottish Executive ring fenced. That meant that local authorities had to spend the pennies exactly as the Scottish Executive ordered them to, but John Swinney has given them the freedom to decide their own priorities and spend the money as they like. On top of that, he has given them a more significant share of the total budget that is available to the Scottish Government.

Thanks for the opportunity to state that.

The Convener: It is well seen that Neil Findlay is a guest. I am being lenient with him.

14:45

Jamie McGrigor: Some witnesses, especially those from the third sector, said that the move away from a bottom-up local approach has led to less added value and fewer visible outcomes, and that more effort is being spent on auditing the money that is going in than on the actual outcomes. How will the Scottish Government measure the legacy and outcomes of the funds in the 2014 to 2020 programme? What mechanisms could be used to facilitate transparent and accessible measuring of the national results overall?

Alex Neil: There is fairly systematic evaluation of all programmes, at different stages. Attempts are made to forecast outcomes, programmes are designed to maximise outcomes and after programmes finish they are evaluated again. All evaluations are freely available to the general public; I do not think that any are commercially confidential. We would be happy to supply copies of any evaluation, if you require them.

We will continue to evaluate programmes. There is acceptable evaluation framework practice at European and at Scottish level. If you go to the Scotland performs website, you will see how well we are doing across every department of Government, including in the use of European funds.

Jamie McGrigor: Do you have an idea of the percentage of the money from the funds that goes on auditing?

Alex Neil: As I said, the requirements of European auditing are quite onerous, particularly for voluntary organisations. We are keen to have a much less onerous system of auditing. We fully understand the need to ensure that we account for public money, because at the end of the day the money that we get from Europe comes from European taxpayers. In some cases, however, we have gone to the other extreme and are spending far too much money on auditing almost for the sake of auditing.

We are keen that for amounts under £250,000, for example, the auditing requirement should be substantially reduced, so that it is more proportionate. Of course, annual reports on compliance with the national economic or reform programme have to be produced, too. All of that is available to members and the general public.

In general, I agree with you that we are spending too much money on auditing European programmes. We have to find a cleverer, smarter way of auditing. However, that must come from the Commission—it is not within our gift.

Aileen McLeod: Witnesses from academic institutions suggested that the funds could be further aligned with business connections, to ensure that there is more research and innovation, particularly in the college sector. Other discussions with witnesses underlined the potential benefits of greater synergy between the proposed horizon 2020 programme and structural funds, such as greater connectivity with small and medium-sized enterprises.

It is challenging for small firms to access EU funds for research and development. Framework programme 7 offers a huge opportunity for the sector; the difficulty is that SMEs do not have the expertise, the capacity, the resources or the financing to access horizon 2020 funding and need some kind of shared resource to enable them to do so. How does the Scottish Government intend to assist Scotland's academic institutions and SMEs to achieve the synergy that witnesses talked about?

Alex Neil: I am very much on the same page as the people who made those points. We will get much more if there is greater synergy, and we all need to do more to ensure that it is achieved.

We perform well. We get far more than the fair share of innovation and R and D funding from Europe that the share of gross domestic product that our SME population accounts for would suggest we should get. The situation is similar in relation to our universities' share of research council money. Although we have 8.9 per cent of the UK's population, we get well over 11 per cent of the research money. We are punching well above our weight.

However, we can do more, particularly given that in the university sector, for example, Scotland is the only country not just in the EU but in Europe that has five universities in the top 200 in the world. That suggests that we have a degree of excellence and expertise in a range of areas that puts us in a very good position to get an even bigger share of R and D in innovation and related funding, both from the UK research councils and from Europe.

Bill Kidd: I think that it was Shane Rankin who mentioned financial instruments—unless I imagined that. Scottish Enterprise suggested that microfinance funding is important. How can Scotland make better use of financial instruments for future rounds of programmes? In particular, how can we ensure that they apply in rural and urban areas—such as Glasgow Anniesland—across Scotland?

Alex Neil: I stress the importance of microfinance. For a number of years, we have been very keen on improving the business start-up rate in Scotland and expanding microbusinesses so that, eventually, they become small or medium-sized businesses; some, we hope, might grow even further. It is often through the provision of microfinance that such businesses get started or can expand, so improving access to microfinance is crucial.

I will hand over to Shane Rankin to say a bit more about the technicalities of financial instruments.

Shane Rankin: Your point is well made in that the Commission is keen to encourage financial engineering in the next programme period. Aileen McLeod mentioned the possibilities in rural areas. The Commission is open to whatever creative solutions we might arrive at.

There is no reason why there might not be scope for financial engineering in rural areas or in areas such as Anniesland for particular priorities. That might take the form of microfinance or of low-carbon funding in rural areas. An aspect of the integration of the European funds that appeals to our rural policy colleagues is the potential that it offers for using rural funds and structural funds to support low-carbon initiatives and to create some kind of financial engineering instrument that could lever in something that has a significant impact on rural areas and the rural economy. It is a question of figuring out what the scale of that might look like, where the match funding might come from and how it would work over time.

With financial engineering, the Commission's ambition is to get leverage from the funds and, in effect, to get a legacy from them that goes beyond the end of the programme, so that the money is not used just once. Such initiatives and ideas are at the heart of what we are trying to do with stakeholders. We are looking at what the shape of the partnership contract might be, what the priority themes might be and how we can make some of those things work together. That is definitely an area in which there is a big opportunity to do something more creative and more lasting with the available cash.

Bill Kidd: How can we ensure that we do what the cabinet secretary suggested and get a disproportionately higher share of the funding? Is there a way of making best use of the financial instruments through our presentation of what we have here already?

Shane Rankin: There are two obvious ways of doing that. The financial instruments that Scottish Enterprise has used over the past few years have been highly successful, and the fact that we have got SPRUCE off the ground and working puts us in a good place.

The cabinet secretary mentioned the significance of the connecting Europe fund. We are in discussion with officials in the Commission about whether we could work with them to pilot the use of funds such as the connecting Europe fund, structural funds and projects bonds, which are another device that the Commission is exploring, to scale up and create a critical mass of funds around Europe's digital ambition and Scotland's digital need. We are in those discussions in the hope that we might pilot something over the next two years or so and to be at the starting gate whenever the door opens for the €40 billion. We have worked with officials so that both they and we know how that might work. We are not guaranteeing that we will be able to do it, but we are seeing if we can make it happen.

The Convener: Cabinet secretary, you spoke about stakeholders, programmes' legacy and outcomes from them—that ties into what Shane Rankin just discussed. How do we share best practice to get the best outcomes? Will you put in place any mechanisms to measure outcomes and monitor whether they are worth while?

Alex Neil: We have in place systems to measure outcomes, which we have done for a number of years. That is a requirement of the European Union. We will be happy to supply any information that the committee requests on outcomes and even the methodologies used to measure them.

We want to ensure that the European Union programmes are clearly aligned with the Scottish Government's purpose of sustainable economic growth and our associated strategic objectives—that is what we are trying to do; that is our focus. In particular, last week I announced £25 million for youth employment. That is a good indicator of the priority that we are giving youth employment as part of our overall purpose of achieving sustainable economic growth. We have been using unallocated European funds to invest in the creation of jobs for young people in Scotland. Our use of that funding is clearly focused on encouraging SMEs, in particular, to recruit young people for real jobs. We see that area as a top priority.

I should point out that because of the depreciation of the euro in the past week, the £25 million is no longer £25 million—it will be slightly less. One hopes that the euro does not depreciate too much, otherwise it will become substantially less than £25 million.

The Convener: Let us hope that that does not happen, and that it rises again.

We are practically at the end of this session. As no committee members have any final points, it is left to me to thank the cabinet secretary for his evidence. We may contact you to get some more detail on a few points. I have no doubt that we will pick up the threads of this when we publish our report, on which we hope to get some feedback from you.

Alex Neil: If the committee would like any information on anything that I have mentioned, please let us know and we will be glad to provide it.

The Convener: Thank you. We appreciate that.

"Brussels Bulletin"

The Convener: The next agenda item is our "Brussels Bulletin", which is expertly put together by Ian Duncan. It is such a changing feast that we will just let him speak to the "Brussels Bulletin". I have no doubt that there have been changes—probably in the last hour.

Ian Duncan (Clerk): You will see again in this "Brussels Bulletin" that the only story is the euro zone. The situation is extremely volatile. When I wrote the bulletin last week, it was obvious that it would be out of date the minute that I stopped writing it. It is now considerably out of date on the Greek situation.

Two or three months ago, when people were discussing Greece's exit from the euro zone, it was quickly and vehemently denied by almost everybody within the European institutions. The big change is that that has stopped. There is no denial anymore—there is euphemistic discussion about all options now being explored. Things are progressively moving towards what seems to be the end game for Greece. The bulletin says that discussions are on-going, but the bulletin is well out of date now. The discussions in Greece to form a Government seem to have failed, so there is a high likelihood of another election within four weeks. The consequences of that remain to be seen.

15:00

In Greece, the people who get the biggest support in an election have a bonus of an extra 50 seats. If, in the next election, the Opposition coalesces around opposition to the austerity measures, a single large Opposition is quite likely to emerge and to be rewarded with the top-up of 50 seats, so that it becomes the biggest force. That will create an almost impossible tension in the euro zone.

I will mention two things that are not in the "Brussels Bulletin"—two other elections that also have a significant bearing. In North Rhine-Westphalia in Germany, Chancellor Merkel's party suffered quite a significant defeat. She will face an election next year. That was a sign that she must be careful about what happens next in Germany. In local government elections in Italy, the parties that have supported the austerity measures and the fiscal compact most have experienced significant defeats. The political persuasion of the party that is in power does not appear to matter particularly; the fact that it is in power seems to be enough to result in huge suffering at the polls. That is perhaps a reflection of democracy reasserting itself after a period of technocracy in government.

I will answer any questions if I can, but things have moved so fast that they have probably changed again since I started speaking.

Jamie McGrigor: We talk about the unthinkable future. If that happens and Greece leaves the euro zone, I understand that that will be particularly difficult for Germany, because it has much money—€644 billion—tied up in banks in other countries that could be dicey. However, what would be the practical result for the average European on the street if we lost Greece? Would everything be more expensive? We are told that such things would be terribly damaging. Who would they damage?

Ian Duncan: A thesis could probably be written to answer those questions. I will describe some points that strike me. If Greece moved towards an unstructured default, the situation for Greece would become difficult—it would have to seal the borders physically to stop money and people moving out until it adopted a new currency. It would have to stop all the flight of money—all flights would be halted until the restructuring and the new currency emerged.

Jamie McGrigor: That would be similar to the position under the Wilson Government of the 1960s in this country.

Ian Duncan: I think that it might be a bit worse than that, but yes—the idea of a free-fall would apply. Ultimately, Greece could benefit, because its currency would devalue and it would be able to find a way out of what has happened. However, the situation could be disastrous for the euro, because confidence in it could collapse.

The impact on the UK would be significant, because the pound would almost certainly benefit from the flight to safe havens. That would have a hugely adverse effect on trade, because the pound would suddenly become strong. As a significant part of our market is in Europe, Europe's ability to buy our goods would be decimated—or possibly more than decimated. The result is that trade would be difficult in currency terms and in the reality of buying goods.

For a period, all bets would be off—nobody would be able to predict what was to happen next. The impact on the average person on the street could be anything from things becoming much more expensive to buy to companies experiencing such turmoil that they could not trade and their order books declined completely.

Jamie McGrigor: Would that all happen because one country left the euro zone?

Ian Duncan: That would happen because one country left. It is a bit like a crack in a wineglass—the crack might be only fine, but the wineglass is cracked, so it is no longer used.

Until this point, everyone has said, "That will never happen and can never happen." The minute that confidence is lost in the ability of the people who say that, whatever they say thereafter becomes suspect. They would almost immediately have to say, "But this couldn't happen in Spain or Italy," but who would believe that? Their integrity would be devalued. The markets are voracious on such matters and would be much more predatory in trying to explore and expose all the chinks that could lead to further issues. It would be a different world.

Jamie McGrigor: I am sorry. That was a very broad question.

Bill Kidd: This is only educated guesswork, but it is guesswork for all of us. With Europe having almost a siege economy, do you think that the new French President's approach to infrastructure development, expenditure and growth would be more likely to become the norm across the European Union than the austerity approach, because it would be necessary, particularly if the euro suffered traumatically against currencies such as the dollar and the pound, to generate a market internally within the euro zone, which would mean having to spend money internally—as you mentioned with Greece—in order to try to build up the economy again?

Ian Duncan: One of the figures that have come out in the past few days shows that the German economy has never been stronger and is booming. The problem is that the powerhouse of Europe—Germany—is doing well on an industrial level and that in order for the other parts of the euro zone to do better, Germany will have to do less well. Just as it is very difficult for Greek politicians to accept the austerity measures, it will be very difficult for German politicians to go to the polls and say, "We must take this strong powerhouse economy and all the good things that are happening here and depress that in order to help these individuals on the periphery."

The issue therefore becomes very difficult. The success of Hollande is interesting, because it creates a very difficult scenario. His view is that austerity alone is not enough and that there must be a growth agenda alongside austerity to help to rebuild Europe. However, that begs the question of where the money will come from to apply the growth strategy, although it appears that Hollande may now be proposing a less severe austerity rather than an easily delivered growth strategy. I think that something will emerge from today's meeting between the leaders of France and Germany, because it is clear that they will have to find out quickly how to work together. They need to be on the same page for confidence in the euro zone to be strong. If they are clearly at odds, market confidence will quickly be eroded.

Neil Findlay: I think that it is inevitable that we will see Greece exit the Euro. As Ian Duncan said, people are reasserting democracy across Europe. For the past 20 or 30 years, the political classes across Europe, whether of the left or the right, agreed that the way forward had to be convergence, the euro and bringing together economies and societies that were clearly hugely different. For example, a relatively backward economy such as that of Greece was merged with that of the industrial powerhouse of Germany, so it was inevitable that that would not work.

The rejection of austerity is welcome from wherever it comes. I watched the previous Greek Prime Minister several times on television. He marched into the EU saying "Right, we've no money for pensions, this, that and the next thing," and they said "Right, the medicine is we'll give you money and forced austerity." He went away and cut more public services, pensions and wages. It did not work, so he comes back a week later and says "We've even less money now—what are we going to do?" They say, "We'll give you more money as long as you make more cuts and more cuts."

I think that it was Einstein who said that doing the same thing twice and expecting a different result is a sign of insanity—that Greek situation is insanity. Hopefully, we are seeing people reassert some democracy in Europe. However, I think that we face a rocky road ahead. It would be interesting for the committee to know what the Scottish Government's contingency plan is for how the situation will impact on Scotland, because it most certainly will.

Ian Duncan: Yes; the committee might wish to explore that in the future. The issue of the democratic mandate is interesting. In Brussels, there is always an assumption that there is a ratchet—that things move only in one direction, even if there is a pause in that motion. There has been almost a dawning of reality in relation to the democratic aspect of countries being unable to fulfil what have been seen by the EU as obligations. We see the chair of the euro group, Jean-Claude Juncker, saying to the Greeks, "You have committed to these measures and you must follow through," but failing to appreciate that the Governments that made those commitments have fallen, which means that the commitments are not endorsed by the democratic process.

Neil Findlay: There are European Governments with not one elected politician in the Cabinet, and we wonder why people are on the streets. A Greek politician yesterday was talking about civil war. That is how serious it is. We sat and watched Italian and Greek Governments being formed that had no elected politicians in them, and we wonder why people are sceptical about this whole project.

Ian Duncan: One of the things that you are probably not seeing is the fact that there are significant protests in Europe. They are almost endemic in Spain and Greece, but I think that the BBC has probably stopped reporting on them. They are large in scale and significant, but you are not hearing about them every day because the media have stopped covering the protests as much as they would if there were fewer of them. There is no doubt that the change that is about to happen will be a shaking of the foundations of the EU. The notion of democracy being at its heart is at question, because what people want and what the economies need are not necessarily the same thing.

Bill Kidd: That is a particularly important point. As Neil Findlay said, everyone will be impacted on, including us.

Earlier, the cabinet secretary talked about how much the £25 million for youth employment would actually be worth. We assume that the funding that we are applying for from the funds will continue to be there. However, if the nations of Europe that contribute to the central pot from which comes the money for the funds are experiencing severe financial problems, the money will not be there to be drawn on. Along with the fact that the euro is not likely to be worth as much, the fact is that there is likely to be a smaller amount of money for the funding that we are looking at in the lead-up to horizon 2020.

Ian Duncan: The big issue, of course, is the multi-annual financial framework—the budget for the next period—which is being discussed just now. A few weeks ago, when the committee was looking at the annual budget, we discussed the fact that the Commission is seeking a 6.8 per cent rise in the annual budget, at a time when no budgets anywhere are rising. The impossibility of the commitments in the EU, given the amount of money that is available to meet them, creates a tension. That will be writ large when it comes to the multi-annual financial framework, which has to be a certain size in order to deliver the projects, which are commitments themselves. Everyone has far less money to spend on that, and we must also consider the status of the euro with regard to how much or how little it will buy. Oddly enough, you could argue that the UK will benefit from that, as the pound will be stronger. However, whether that helps when the money comes back in the other direction is a different question. What is gained by one hand might be lost by another.

The tension in all those discussions is that it is impossible to have a discussion about the future economic situation in Europe until the situation is stabilised, because everything is uncertain.

Aileen McLeod: There are serious calls for trying to put in place some kind of growth strategy.

There will be a European Council meeting on 23 May to discuss how we can stimulate more growth in Europe’s economy and create more jobs.

15:15

Before Hollande was elected, he was standing on a platform that included suggestions about getting more capital into the European Investment Bank and reorienting the structural funds towards growth. The European Commission certainly moved quickly to try to do that, and the wording that it is using about a growth strategy plan demonstrates that it is considering how we get greater private and public sector leverage into large infrastructure projects, in broadband and in the transport and energy sectors, which the cabinet secretary talked about.

Ian Duncan: The difficulty is the dislocation in Europe, because those things are essential for places like Scotland and the UK, but if you talk to someone in Greece about broadband funding they will not be keen—they need the money to go somewhere else. The same is true all over Europe. There is still rhetoric in the EU about growing economies that need to develop in the ways that you described, and we are fortunate in that Scotland is probably one of the economies that could still benefit from the money. Elsewhere, the money is having to go into completely different areas, which are so fundamental that it is almost impossible to believe. I am talking about moneys for pensions and to support hospitals or whatever. The fearful thing is that the rhetoric does not always recognise that.

The discussion about the multi-annual financial framework will be critical in that regard. It is all very well to talk about renewable energy policy, but if people cannot afford to pay their bills the tensions will not be resolved by giving more money to the EU for such projects—or not easily, anyway.

Jamie McGrigor: I read one or two articles in the press that suggested that there could be separate agreements between countries in the EU, such as Germany and Greece—a sort of nannying of Greece by Germany, to a certain extent. Is that a possibility, to see one country through a period, to maintain stability?

Ian Duncan: Not easily. Some of the rhetoric that is emerging in Greece, as we saw with the growth of the fascist, far-right wing, is very reminiscent of the period before the second world war. The notion of control from outwith the country’s own borders is very unpopular. The EU wanted to appoint a—I am looking for the word; “master” is not the right one—

The Convener: Mentor.

Ian Duncan: The EU wanted to appoint someone who could be on the ground in Athens, to ensure that everything that the Government was doing was compliant and was adhered to. That is a challenge for the Greek people. Suddenly to have someone from outwith the country who was responsible for its budget and how it was spent would be anathema to any people.

You will remember that there was a write-down of the scale of the Greek debt, of the order of 75 per cent. People have already taken a massive loss on their investments in Greece; the question is whether they will have to take further write-downs and be left with almost no value. Most banks have tried to ring fence their Greek debt and assume that it is lost.

Jamie McGrigor: Are the larger countries, such as Germany and France, which were keen on expansion in the first place, partly to blame, for having pulled the wool over people’s eyes in relation to some of the discrepancies in how countries such as Greece were being run, in relation to little things like taxes and so on? Surely the chickens are coming home to roost, for that very reason. I agree with what was said about technocracies; there is nothing worse than politicians who are not elected. However, elected politicians appear to have let the people down very badly, which is why the crisis has happened.

Ian Duncan: That debate is going on. The unpopularity of all politicians in Greece, both current and previous, is a reflection on the situation. Not long ago, Greece was celebrating a huge rebuilding programme. It staged the Olympic games and was making investments. It is not so long ago—just over a decade—that Greece was being held up as a success story, not only for what it had done in its own right but for the EU as a whole. I imagine that it will be difficult to find any individual responsible for the situation. Responsibility is collective and the finger will not be pointed at a single person, so nobody will be held to account.

Jamie McGrigor: However, the Greeks won that very important football match.

Ian Duncan: I am sure that that cheers them.

The Convener: I am sure that the gate money was not enough to sort out the situation.

Neil Findlay: The way that things operate in the UK, anybody on the left or right of the political spectrum who challenged the orthodoxy of EU convergence being the right way to go was pointed at and marginalised as some sort of crank, left-wing nutter or right-wing nutter. However, many of them have been proven correct.

People who have been sceptical, for whatever reason—there are a wide variety of reasons why people have been sceptical—of the culture of the ratchet being able to go in only one direction have largely been shown to be right. I do not have any great satisfaction in being sceptical. If it all goes wrong, it will impact on me, my family, my friends and my community as much as it will on anybody else.

Perhaps it is a lesson for us that, when people speak out on issues about which they have genuine fears, we should not simply point to them as being cranks and lunatics because, in many ways, they are often proven to be correct.

Ian Duncan: That is, I think, one of the reasons why the use of referendums as a way of gauging support has fallen out of fashion throughout Europe.

As you know, the Irish referendum on the fiscal compact will happen on 31 May. One of the clauses of the compact is that, if a country votes against it, its money stops. Therefore, the Irish referendum would have immediate consequences. The Irish will recognise what that means: the dice are loaded and it would be insane for them to vote against fiscal compact, because it would interrupt their money and that would not be sustainable for them.

Ireland is the only country that is having a referendum. Other countries do not have the appetite for one. General elections are now being used as referendums on EU issues probably more than ever before.

The Convener: Can we tie this item up? We are doing some work on our report on the crisis in the euro zone. Although we are close to completing the report, we are not close to concluding the issue, which will probably be a standing agenda item for the next wee while.

I thank Ian Duncan for his contribution. Is the committee happy to send the "Brussels Bulletin" to other committees for their information?

Members *indicated agreement.*

The Convener: That moves us to agenda item 4, which we agreed to take in private. I thank members of the public for attending.

15:22

Meeting continued in private until 16:19.

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