

HOUSE OF LORDS
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TAKEN BEFORE
THE SELECT COMMITTEE ON THE EUROPEAN UNION
(SUB-COMMITTEE A)

THE FUTURE OF EUROPEAN STRUCTURAL FUNDS

TUESDAY 8 JANUARY 2008

MR DONALD MACINNES, MR PHIL MCVEY AND MR ROGER READ

Evidence heard in Public

Questions 1 - 35

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Present

Cohen of Pimlico, B. (Chairman)
MacLennan of Rogart, L.
Moser, L.
Steinberg, L.
Trimble, L.
Watson of Richmond, L.
Woolmer of Leeds, L.

Memorandum submitted by METREX

Examination of Witnesses

Witnesses: **Mr Donald MacInnes**, Scotland Europa, **Mr Phil McVey**, South West of England Regional Development Agency and **Mr Roger Read**, METREX, examined.

Q1 Chairman: Good morning and welcome to the Committee. Could I say that we do record everything that is said here but you will get a transcript of it so that you can make corrections of things which might have been better put, if that happens. I know you have had a list of the questions but I would like to add to this: I would like you all to start out by saying what it is that your organisation does because this is a new subject for us and not all of us are absolutely familiar with what these various groups do. We very much wanted to talk to people who were, as it were, at the sharp end, at the end where the money got to. The first question, which I am going to ask, really applies only to Mr MacInnes and Mr McVey, and Mr Read gets his chance probably with question 3 – we put an extra one in. Against the background would Mr MacInnes and Mr McVey start out by telling us, roughly speaking, about their organisations and what they do?

Mr MacInnes: I am Donald MacInnes, I am the Chief Executive of an organisation called Scotland Europa. We are a membership organisation. Approximately 60 members pay our

fee to represent them in Brussels. In Scotland we also represent Scottish Enterprise and provide the EU funding service for Scottish Enterprise. They get around £30 million a year in EU funds for around 300 live projects we have just now.

Mr McVey: Good morning. My name is Phil McVey, I am Director of European Programmes in the South West of England Regional Development Agency. We are a government agency - there is one agency in each of England's regions, including London – responsible for leading sustainable economic development within the region. We receive funding each year from central government, in addition to which from this year we receive approximately £50 million each year of European funding, which we are administering on behalf of the UK government in the region working with partners.

Q2 Chairman: That is quite a familiar structure. If I may start by asking both of you, answering in turn or as you like, what are your guiding principles as you distribute funds received from the EU? To what extent are you allowed to use your own discretion in setting the parameters for distribution? Do you believe the devolution in the United Kingdom of decision-making to the devolved administrations and the RDAs has been successful?

Mr MacInnes: Our guiding principles are that we like to use the funds to support our economic strategy in Scotland. We have a clear economic strategy which was called Smart Successful Scotland, it has now been renewed in the autumn, and our aim is to support business innovation, research and development, workforce development and also regeneration of deprived areas. To what extent do we have discretion: yes, we do have a large degree of discretion within these parameters, especially in the new programme where we are taking a much more strategic approach to funding. Rather than having to apply on individual projects, we are free to apply on a strategic basis; to do that we apply to support our priority industries. We have six priority industries that we particularly want to support because by supporting them from a public point of view we think they make a disproportionate impact on the

economy. Whether devolution and decision-making to devolved administrations has been advantageous, we have not noticed a big difference in that. When it comes specifically to Structural Funds we have not noticed a big difference on whether that has been advantageous. In a whole lot of other areas, of course, there are comments on that. The area we like to support more in terms of going forward is innovation and research and development, and particularly tying some of the issues we have to do with regeneration with the bigger issues across Europe in climate change and so on. We find it very difficult to square that circle, particularly using Structural Funds. I think it is easier to do that using the bigger funds like the Framework Programmes in research and development.

Mr McVey: Our guiding principles are along similar lines, in that we take as the starting point for how we use the funds in the region our regional economic strategy, which sets out on behalf of partners what we hope to achieve in the economy in the South West. Underpinning that is very much the environment as being an economic driver, so that we do not see issues such as climate change as a disadvantage, but we should see them as an opportunity within the economy. As well as that regional principle in terms of how we would use the funds within the region, we also keep very much to the top of our mind two other things: one, that these are European funds, so we work within the framework set up by the European Commission and all the Member States for the use of the funds. There is something called the National Strategic Reference Framework that sets out how the UK will distribute the funds and we work very closely with that. Then critically (and I would say this as someone who lives in the far South West of England) we align the funds with local economic strategies. I think about Cornwall and the Isles of Scilly which will receive a considerable injection of European funds over the next seven years. That area has its own economic strategy as we have. As well as taking account of the top-down national regional strategies, we have built the use of the funding around that local economic strategy as well so that, for

example, in Cornwall and the Isles of Scilly partners are very keen to see the further development of the renewable energy sector in Cornwall and the Isles of Scilly. We have worked with them to ensure that the European programmes will help to deliver that aspiration. In terms of the second part of the question about the development of decision-making – and I should make it clear that this is the first time that Regional Development Agencies have actually been responsible for the funds, so it might be a little early to say what the outcome will be – even in the planning of the programmes in the South West of England with the RDA in the lead we have seen a much greater emphasis on ensuring that the activities in the European programmes, and the sort of outcomes we are going to achieve, are much more aligned with existing strategies in the region. At the outset of the programme we have got a set of things we want to achieve that are much more, as I say, closely aligned with overall aspirations.

Q3 Lord Steinberg: May I ask a question particularly of Mr MacInnes but maybe you can come in as well. You said there were six principal industries that you were supporting and working on. Could you tell us what those are, please? I am particularly interested to know whether tourism forms any part of that, and would ask Mr McVey the same thing.

Mr MacInnes: From a Scottish Enterprise point of view the six priority industries are: life sciences; energy; financial services; tourism; creative industries and there is another one as well.

Q4 Lord Steinberg: Obviously not an important one!

Mr MacInnes: I cannot remember the other one. These are basic industries.

Q5 Lord Steinberg: Are the monies allocated on a fairly even basis, or do some take a particular priority?

Mr MacInnes: No, not evenly. Some of these industries are much more advanced than others. For instance, the work we do in financial services is about workforce development skills, to have skills coming through for the big financial services industry that we have. In energy it is the combination of supporting the oil and gas in Aberdeen, for instance, plus also supporting new projects in renewables. In creative industries it is to support a young industry across Scotland, particularly in Dundee.

Q6 Lord Watson of Richmond: You particularly mentioned innovation several times. To what extent are you in the business of picking winners, and what is the process which led you down that path? Secondly, if you could just clear up something which has slightly puzzled me. I may have misunderstood what you were saying, Mr MacInnes, but I thought you said that your organisation was a membership organisation? Presumably you have to be very careful about this so there is no relationship between a company becoming a member and paying a fee presumably and having any kind of access to these funds?

Mr MacInnes: No, there is no relationship. On innovation we believe that by supporting young companies which have a capacity to grow faster than others we can make a disproportionate impact on the economy.

Q7 Lord Watson of Richmond: I am sorry, my question is: how do you judge which have the greater potential to develop, because that is picking winners?

Mr MacInnes: We have two particular programmes that we work on. One is called the Proof of Concept Fund where we have achieved about £10 million of ERDF funding for that, and that is for people who are working on research at universities and have not yet got a commercial idea but by supporting them we think that the idea might become commercial and it would lead to a substantial company being set up. We work closely with the universities on that one so it is very specific. The other fund we have is what we call the Scottish Co-

investment Fund, and again we want to attract people who want to grow businesses of scale. We do not make the choices ourselves; we either allow universities or companies to come to us. On the question of our members, it is not individual companies who are members of Scotland Europa, it is people like the universities, local authorities and so on.

Q8 Lord MacLennan of Rogart: I am sorry, I am still trying to get a little more clarity in my mind about how you operate. Are you in a negotiating position with the funders in the European Union about the objectives, or is this discussion about prioritisation in a sense entirely internal to Scotland?

Mr MacInnes: We have an office in Brussels where we work to promote our members' interests and that ranges from helping them to understand what legislative issues might be coming up, to helping them with funding for individual projects. The large part of what we do with Scottish Enterprise, which is one of our members, is on Structural Funds and helping them to obtain funding for their individual projects.

Q9 Lord MacLennan of Rogart: What proportion of the funds allocated to Scotland is administered by your organisation?

Mr MacInnes: On business development funds it is round about 70 per cent.

Q10 Chairman: Mr McVey, would you like to comment (these questions were directed to Scotland) inasmuch as they apply to your area?

Mr McVey: I would like to comment, if I might, on the question related to sectors. The South West of England in the recent economic strategy has priority sectors, and tourism is one of those priority sectors. In relation to how we might make use of the European Structural Funds within the region we are taking a slightly different approach, which is we recognise the value that certain sectors make to the economy but the programmes themselves are much

more about ensuring that we invest in companies that are going to deliver high quality, high value jobs in the future regardless of sector; and that is a slightly different approach to what might have been taken in the past through European Structural Fund Programmes. There is no allocation to a sector of funding, but what there is is a definite concentration of funding upon businesses that we believe might bring those better jobs in the future, and that is very important in the South West of England where the average wage rate is below the national average in many parts of the region. It does relate to the subsequent question about picking winners which is always a difficult issue. I do not know if anybody has got the answer to that one in particular. Similar to Scotland, we have a proof of concept programme whereby we can reward inventors, if you like, to ensure that those ideas get transferred to the market, get transferred to businesses as quickly as possible, and that is something Structural Funds are going to do as well. If I may in relation to the third point about the relationship with Brussels, certainly in terms of the Structural Fund, the South West RDA is responsible for 100 per cent of the main Structural Fund Programmes coming into the South West region. It has been a very open dialogue with Brussels about the prioritisation of the funding and how we might use it within the region. The sectoral issue is a particular one, where Brussels started from the standpoint of wanting to see clear sectoral prioritisation and money allocated to sectors on the basis of their importance in the region. We persuaded them that actually a different approach, a sectoral aligned approach, might be one that in the longer run would bring greater benefits because, as I say, we invest on the basis of outputs and impacts we are getting in terms of jobs and growth, rather than on a particular sector's historical performance.

Chairman: Thank you very much. The guns will turn on Mr Read shortly. Lord Trimble, I think your question probably applies more at this point than Mr Read's operation, if you would like to ask it.

Q11 Lord Trimble: Just reflecting on the involvement of devolved administrations, I was quite surprised in our early days when a senior official in the Department of Finance told me that European Structural Funds were quite often more trouble than they were worth; that they led to a distortion of public expenditure priorities because the money was not additional to devolved administration, the money went to HMT; and consequently the Treasury put pressure on the administration to pursue public expenditure which would draw down money from Brussels rather than very often pursuing public expenditure priorities the administration would have pursued, were it not that. You referred to the dialogue with Brussels; do have any sort of dialogue with the Treasury?

Mr McVey: Not directly, is the straight answer to that. As a Regional Development Agency we do not because we deal through the Department for Business Enterprise and Regulatory Reform and Communities and Local Government, so that is our route for dialogue. The issue as to whether Structural Funds distort public expenditure within the region is one that is discussed quite a lot. If I refer to Cornwall and the Isles of Scilly - where it has been put to us that, because there is a concentration of Structural Funds in Cornwall and the Isles of Scilly, other parts of the South West Region do not receive as much domestic funding as they might through the Regional Development Agency - in fact, all the evidence is that the Regional Development Agency would have and has spent the domestic money in Cornwall and the Isles of Scilly anyway because of the economic conditions in that part of the far South West. The distortion is not at the level that people might be arguing.

Mr MacInnes: The situation with us is very similar. In fact, maybe to put it in an historical context, our principal relationship was with the Scottish Office previously, then the Scottish Executive and the Scottish Government. We do not have a direct relationship with the Treasury as such.

Q12 Lord Trimble: Do you come under any pressure from the Scottish administration?

Mr MacInnes: No, we agree the programme with them and we have done that for the programme for 2007-2017.

Q13 Lord Trimble: If there was any Treasury influence it would be on the Scottish administration and then fed through indirectly to yourselves?

Mr MacInnes: Yes.

Q14 Lord Woolmer of Leeds: Mr Read, in this country the idea of city regions being very important drivers of development and so on is now well established – 500,000-plus population and so on, as you say in your notes. You say in your written evidence that Structural Funds need to recognise the importance of the metropolitan dimension (city regions, I assume) to the various agendas for sustainable economic and environmental development. Does that imply that the Structural Funds do not currently do that? What is it that you are critical of; and what is it that needs to be put right in your view?

Mr Read: Would you like me to say something about METREX and myself?

Q15 Chairman: Yes, please. If you could introduce the organisation.

Mr Read: METREX is a network of city regions, city regions and their area of influence. We use the term “metropolitan” to describe that. As I have said, there are about 100, over half a million. It was founded in 1996. It is a self-help network for practitioners. By “practitioners” we mean politicians, officials and their advisers; so everybody who is involved in strategic decision-making at that level to just exchange knowledge and information, and also to contribute what we term the “metropolitan dimension” to European affairs. So those two objectives are the network. It is self-funding; it is a club. In our view there are two ways in which the funds might be approached. It is possible to point directions, as the EU has done with climate change, to say we have an objective of an 80 per cent reduction over 1990 by

2050. METREX has responded to that through the INTERREG programme with a submission where all our members will try and reduce their levels of emission; so it is a responsive approach. The other approach which is really the main thrust of our evidence to you is that in 1999 the European Spatial Development Perspective was produced. It took about ten years to produce and nothing has happened since 1999. We have now got the situation where the EU has social, economic and territorial cohesion as its objective. One of the issues is: what is “territorial cohesion”? There was a view on this which said that the open balance in Europe leads to problems in terms of cohesion and competitiveness, so much being in the core and so little being round the periphery. The work of ESPON, which is the advisory research organisation to DG Regio, is that perhaps 20-30 of Europe’s metropolitan regions are strong. The vast number of them has a range of interrelating problems of all kinds. If better balance is an objective, better territorial balance, in our view it can only be achieved by co-operation between a lot of the metropolitan areas around the periphery. What we would like to see in a word (and it is something we have tried to produce ourselves) is a framework for Europe; so that in allocating the funds it will be possible for Europe to say, “We have a vision, framework, perspective, whatever you like, of the medium to longer-term; we would invite you to contribute to its realisation”; so positive leadership rather than pointing the direction with objectives and criteria. “This is where we would like you to go; please go there; make proposals to us”. This document has been produced under the INTERREG programme by METREX and METREX members really in order to provide it with a context, with a plan in effect. Our response really to the question is that we would like to see a clear view of the long-term future of Europe, a clear vision for that; and an invitation for metropolitan areas which we regard as the building blocks to realise that vision to participate and contribute. That is what is happening at the moment in the absence of this. This has been produced because of the vacuum above. I know you have a concern about

subsidiarity. Our view of subsidiarity is that every level of decision-making has an obligation to say, “These are the issues which we have to address, because they cannot be addressed effectively anywhere else”; and to then say how they are going to do that. At the moment there does not seem that direction from the European level of “This is where we want to go. This is how we intend to get there. We invite you to join us on the journey”. I think in essence that is the position we have on the funds.

Q16 Lord Woolmer of Leeds: In England (and I do not know the situation in Scotland terribly well, Mr MacInnes, so you may later put me right) the idea of city region issues is embedded in the way in which a number of policies are developed. Certainly in Yorkshire, North East, North West and Yorkshire northern regions this is central to the work of the Regional Development Agencies. Is not all this adding another layer of bureaucracy if you start saying the metropolitan regions have got to have a separate route into Brussels and so on? In England at least is this not the job of the Regional Development Agencies; because at the end of the day policies have to be coherent and city regions have to fit into a wider policy and so on? I hear what you say, and people all talking is very interesting and very helpful, but in terms of the Structural Funds what is it you think needs to be put right that is not being put right at the moment? I am trying to get to something concrete as opposed to lots of discussion producing documents?

Mr Read: If one accepts that the city region level is a key level for strategic decision-making, there are all sorts of mechanisms we are aware of across Europe for doing that – just a voluntary coming together of existing organisations at one level, what you might term the “voluntary approach”. Recognising that there are decisions that have to be taken at that level, let us take all the stakeholders together to try and take that on a voluntary basis; and there are mechanisms which are that model. There are other models which you might term the “statutory approach” where an authority is set up with competences and powers to address big

issues if there is economic restructuring going on in a crisis situation. It is a pity that our President from Stuttgart is not here because, as you know, Germany has set up 11 metropolitan regions; and they have set it up because they are concerned about the competitiveness of Germany, and recognition that there are key decisions which have to be taken at that level. The Stuttgart Metropolitan area, which was the first one to be set up, is half of Baden-Wurttemberg, and it was set up by Baden-Wurttemberg. It was set up because they recognised there was a decision-making level there that had to be established. I think there are a number of models you can use for strategic decision-making at that level. It does not necessarily have to lead to a further level of bureaucracy. For example, in Scotland in the Glasgow area, where there are eight authorities, they are both the local planning authority and the strategic planning authority. They can only exercise their strategic powers collectively together so there is nothing extra. So they do both those things in different sorts of ways. I do not think it follows that there has to be a further level of bureaucracy. The key thing is that the area that is appropriate ought to be covered, and the decision-making mechanism is there. It is an informed decision-making because we want informed decision-making and it does require some sort of back-up.

Q17 Lord MacLennan of Rogart: You are not seeking, are you, for the nexus of metropolitan regions decision-making authority which has to be recognised in the decision-making process in Brussels?

Mr Read: No. In order to achieve the territorial cohesion if that is an objective, and it would appear to be, then our view is that that will be brought about effectively by metropolitan areas co-operating particularly around the periphery. If there is no mechanism at the metropolitan level then it is difficult to organise that co-operation. Examples like the Oresund arrangement or the Eurocity Basque of Biarritz and San Sebastian combining, those sorts of mechanisms are required for collective strength around the periphery in order to get some sort of balance

with the core. It is difficult to achieve that collective strength around the periphery unless the mechanisms are there to co-operate with one another.

Q18 Lord Maclellan of Rogart: Is that organisation a matter for the member governments, the Member States, in our view, to make sure that these concerns are reflected in national policy and national agencies; or are you actually trying to change the practice of the European Commission in considering the implementation of effective Structural Fund distribution?

Mr Read: I think Europe city regions make good partners with the EU and good mechanisms through which they can achieve their objectives.

Q19 Lord Maclellan of Rogart: Mr Read, I understand the point but I am trying to see if you are looking for a constitutional or institutional change. Are you actually saying that the mechanisms do not work to achieve your goals; or are you saying you would just like your roles to be rather better understood at national levels?

Mr Read: If the city region is regarded as a basic building block across Europe for decision-taking then I think METREX would advocate that mechanisms are set up to take decisions that are needed at that level, and the mechanisms can vary completely. In some cases they are set up by government nationally, as it has been with Germany, and in other cases it is completely a bottom-up arrangement where all of the authorities in the city region area decide to come together for their own good reasons to co-operate and be stronger. There is nothing dictatorial about this – it is simply saying that a decision-making mechanism at the city region level across Europe enables Europe to interact with that. There are lots of models for it; but crucially it enables those mechanisms to co-operate around the periphery. If they are not there then organising that co-operation is that much more difficult.

Q20 Chairman: Is this meant to be a talking shop – put in a more derogatory way than I mean – is this meant to be a place where people talk to each other; or are you advocating the funding actually coming in at the city regional level?

Mr Read: Our main point is not so much the funding coming in at the city region level. Our main point is that, in addition to have some objectives and some issues which Europe would like everybody to engage in, it would be good to have something by way of vision, framework or perspective at the European level to which others could then contribute. A level which would then contribute very effectively with that would be the city region level. A number of countries have decided to go down that road and set that up, and funding goes through them; but that is not, I do not think, the key issue. The key issue at the moment is the absence of a clear vision for the future of Europe at that level.

Chairman: The next question I was going to ask was about the future. We will pass that one by and I will ask Lord Watson to ask his question.

Q21 Lord Watson of Richmond: I would just like to follow up on one thing Mr Read has said, because I think we have got a slight feeling that maybe inadvertently you have opened Pandora's Box. The truth is, depending on how you interpret "territorial cohesion" (and this is one of those phrase, is it not: what does it mean; how does one set of territorial cohesions relate to another) you may be straying into a huge minefield which, at the end of the day, is about whether Structural Funding ought to try and produce greater economic equality, or at least equality of opportunity between regions. As you know, that is an entirely unresolved question within the European Union; very controversial and much more sensitive post-enlargement than it was pre-enlargement. We are right into the minefield of all minefields at this point. Therefore, I would like from you a clear definition of your understanding of "territorial cohesion"; and to link that, if I may, to the question on subsidiarity again, which is: by going down this sort of route, and indeed Structural Funds themselves, are they

basically not trespassing on sovereign decisions by government, but actually creating a situation in which they insist that decision-making is taken at this level and not at perhaps a more political level?

Mr Read: Our vision of better balance is set out here. As I mentioned earlier, of the 100 metropolitan areas in Europe maybe 20 or 30 are strong (question what defines “strong”), but have a number of collective strengths; but the vast majority of them have a range of significant weaknesses; they have potential but significant weaknesses.

Q22 Lord Watson of Richmond: Is the implication of that, in your mind anyway, that the 20 should somehow help the 80?

Mr Read: Not at all, but those are just the circumstances. The question is: is everybody happy with that? Looking to the future, do they think that situation is likely to get worse? Is that imbalance likely to increase? What could one do about it? What would be beneficial to all to do something about it? The conclusion that came out from this is, looking at the connectivity of Europe, it is like a spider’s web, it is very radial and there are not too many opportunities to go north, south, east, west or, indeed, around the periphery. There is the connectivity issue. Does the periphery need to be connected better to itself?

Q23 Lord Watson of Richmond: You are arguing, in a way, that as connectivity does not currently exist this is not an issue relevant to subsidiarity? One is not taking away from Member States because they do not do it anyway?

Mr Read: Indeed. It is an issue of connectivity that has not been resolved as yet. Within that framework, north, south, east, west and peripheral connectivity being improved, that the weaker metropolitan areas should cluster together for collective strength, as they are progressively doing regardless of European policy. For example, in the Po Valley there is an initiative of all the Italian cities there to develop their collective strength. There are similar

initiatives around the periphery: the Saxon Triangle, Dresden, Leipzig and Chemnitz, coming together for collective strength.

Q24 Lord Watson of Richmond: And here?

Mr Read: Here, the Northern Way and the Midlands Way would be good comparable examples, exactly. It is that form of collective action around the periphery, enabled by better overall communications, which is how we see better open balance evolving. In our view, it is evolving in that way on a bottom-up basis. It would be nice to have some recognition that that is the way it ought to go from the top as well as from the bottom.

Q25 Chairman: Can I also address Lord Watson's questions to Mr McVey and Mr MacInnes because we were looking for a view on subsidiarity from all of you?

Mr McVey: On the subsidiarity question, I have been working on Structural Funds since 1999 and what has amazed me in that time is that the governance structures for European programmes to me demonstrate the principles of subsidiarity more than almost anything I have worked with in the past; in that we have local, regional, national and European decision-making decisions being made at the most appropriate levels. If I think about someone at the sharp end and the way we have actually worked up the current European programmes, although they have been done, as I have said, within the context of European guidelines, what is actually going to happen with the money is something that is very much determined at a local level. To take a pragmatic view of perhaps not worrying too much about where the money is coming from or who owns it, what we are able to do with it at a regional local level is the most important factor.

Mr MacInnes: Our experience is similar to that. We find that the more we talk about subsidiarity the more local decision-making comes into play, the more then we have a responsibility for an audit trail for a whole new set of administration of these programmes.

We do find some applicants reluctant to apply for funding simply because of the burden of administration which is probably, in part at least, caused by local decision-making, whether people want to be sure that they have a good audit trail for a project.

Q26 Lord Moser: At the foot of all this really is the overall scale of Structural Funds. I wonder whether you would like to comment, any of you, on the criteria that should determine the scale of the overall EU budget going to the Structural Funds; and whether at the present time, in your view, it is adequate to do the job you think the Structural Funds should do, or too much or too little? The overall scale?

Mr MacInnes: I suppose our experience from a customer point of view is that we have many more applications than we have money available. I imagine if you look at it from that point of view that there is not sufficient funding. There may well be other sources of funding for some of these applications; and some of them might not be appropriate for Structural Funds. In fact some of the other EU funding programmes may be more appropriate. Going into the future, I think that would be more and more the case, with more emphasis on business innovation and research and development, where these programmes are linked, for instance, with the big issues of climate change and so on. It may well be that Structural Funds will become less significant, and that the other programmes become more significant. We are finding already there is a strong appetite for applicants to go for framework programmes for research and development, for lifelong learning programmes and INTERREG programmes and so on.

Mr McVey: Yes, I am very much on the same lines. From a regional perspective you would expect us to always say there is not enough money for the region for these sorts of programmes. However, there is something about having a limited budget that gives focus to your activities. It makes you make decisions about what you are going to spend the money on. Certainly in terms of developing the current programme, that has been a really good

discipline knowing that there is this limited amount of money that you want to achieve set objectives with. In terms of criteria for the future programmes, I guess we would argue for a radical shift here. There is still unfinished business in terms of the internal market and parts of the European Union that are lagging in terms of economic performance. We would still want to see criteria put in place, for example, for regions whose gross domestic product is below 75 per cent of the EU average, to ensure there was sufficient budget for them to improve their economic performance. Similarly we would want some criteria put in place that would ensure, for those regions that fall into a bit of a no-man's land between the criteria for the current convergence programmes and being at 100 per cent of the EU average for GDP, there was some money made available for them to address issues maybe to do with skills shortages or particular issues within their economy around maybe the take-up of innovation within businesses. For example, we would want to ensure there was still some Structural Funding available to enable that gap to be filled. There is an unresolved issue, not for debate today, in terms of the size of the overall budget, and the unresolved issue of the Common Agricultural Policy in terms of more needing to be done from a regional perspective to ensure more of that money is diverted towards economic development activities.

Q27 Lord Moser: I am very ignorant about the process. Somebody in Brussels decides how much you are going to get for the South West. To what extent is that actually related to your express needs, to your shopping list so to speak; or is it just a figure and you have to do the best you can within it?

Mr McVey: The process is primarily at Member State level with Brussels in terms of determining an allocation for Member States based on various factors, including gross domestic product and others. At a regional level the UK Government agrees the criteria with the Commission, by which it will distribute money to the regions. That is based upon a mixture of need and opportunity. For example, in the South West because we have parts of

the region, such as Cornwall and the Isles of Scilly, whose GDP historically has been much lower than the EU average, we do receive concentrations of funding to meet that need, as well as some funding related to opportunities around parts of the region where there is potential for businesses to be more competitive. There is a mixture of money based on the need and potential.

Q28 Chairman: Mr Read, do you have any comment on this bit of it?

Mr Read: No, other than just to reiterate again, if there was a longer-term vision that had been funded by the EU that would be the other way of looking at it, rather than trying to access the need from the bottom up to say, “This is where we are trying to get to. We think these are the resources required to get there. We invite you to make use of those resources and help us realise the goal”.

Q29 Lord Watson of Richmond: This Committee spent a lot of time last year looking at the difficult issues of fraud within the European Union. I wanted therefore to ask you one question about audit trails, as you raised the audit trail question. We listened to a lot of people from the Commission in particular arguing that the possibility of fraud was really something which fundamentally focussed in the Member States rather than the institutions. Therefore I just wonder, in terms of the audit trail for monies that are granted under Structural Funding, where does the audit go; what is your reporting line on how the money has been spent?

Mr MacInnes: There are a number of audit bodies, from the European Court of Auditors to the DG Regio audits through to Member State audits and local audits for programmes, so there is a whole range of levels of audits, and the experience of applicants is that that audit burden is becoming very heavy indeed.

Q30 Lord Watson of Richmond: So they are likely to find themselves with audit reporting lines which are going to regional government in the UK, national government and Brussels?

Mr MacInnes: Yes.

Lord Watson of Richmond: Okay, thank you.

Q31 Lord Woolmer of Leeds: I suppose a question for all of you: do you think that the current eligibility tests for regions to receive support under the Structural Funds are relevant, fair and appropriate?

Mr McVey: I recognise that I may have answered this question already in response to the previous question, but I think that the current tests have delivered for the South West region levels of funding that have enabled us to make significant differences to the economy in parts of the region, and that will continue with the new programmes. It is important - and I think I have already said this - that there are still tests in place that enable need to be recognised at a regional level and a sub-regional level as well. However, that is something for us as a region to determine. As I have already said, I would like to see in place tests that do recognise the gross domestic product of regions in relation to the EU average but also do something to capture the needs of those regions which, although on the face of it are relatively prosperous, have within them pockets of real need in terms of economic performance that lag behind the rest of the region and Europe.

Q32 Lord Woolmer of Leeds: But do those tests currently apply? Are you saying they do apply now and you want them to remain?

Mr McVey: The tests apply and I think, although enlargement and further enlargement brings further restrictions upon how the budget can be spread, there is a need to have tests in the future that would consider some of the issues that are here at the moment.

Mr MacInnes: From a Scotland point of view, I expect the two parts of Scotland that have done best out of the funds would be Highlands and Islands and Glasgow and West Central Scotland in terms of deindustrialisation and so on. I think the tests that would apply at that time over the last 20 years have been appropriate and have made a substantial difference in focusing funds on the areas that needed to be focused on. As we go forward it is more difficult to know what these tests ought to be, with more emphasis now on innovation, research and development. It is not clear that the funding should go, for instance, to the areas and to the applicants that it went to over the last programme period, so I think whilst the tests are relevant they also have to change for the next programme.

Q33 Lord Woolmer of Leeds: So looking to post-2013, what changes do you fear might happen that you would not like to see and what changes would you like to happen?

Mr MacInnes: The changes we would like to happen: again, just more emphasis on workforce development, on innovation, on research and development, and also on making sure that areas of local regeneration that need to be regenerated locally are still done. I think that the big infrastructural projects that have been funded in the past will not happen in the future in the same way and there may be a concern that there are still some of these needing to be done but that they will not be addressed in the same comprehensive way that they were in the past.

Mr McVey: I think the fear would be that because of enlargement, because of restrictions on the budget, that there would be an emphasis just on need which would mean certain Member States on the face of it might not receive any Structural Funds in the future, or certainly some regions in the UK might not receive Structural Funds in the future. To echo what Donald was saying, there is the need for regeneration in certain parts of the UK so that somehow needs to be recognised in the criteria. I also support very strongly the point that Donald was making about the need for competitiveness-type activities to be supported and criteria to be in place to

support those, so around innovation and research and development. That certainly is the way forward with much of the funding.

Q34 Chairman: I think I would like to do a sweep-up question which is how can the funds become more effective in supporting other policies to deal with climate change and managed migration, et cetera, in Member States and regions? I would like a quick answer from all three if I might.

Mr Read: I can say something about where we stand on climate change in terms of METREX members. There is a computer model produced by the Tyndall Centre in East Anglia called GRIP which enables metropolitan areas to look at their sources of energy and the emissions that are generated and the source of those emissions within the metropolitan areas. We have a proposition going forward under INTERREG at the moment where every metropolitan area does that. They do an inventory of their emissions and the sources and then look at various reduction scenarios and come up with an integrated strategy to do that, which involves all of the stakeholders - to use the jargon - all of those who have a contribution to make to reducing emissions, sitting round the table, which is one of the reasons why you need a decision-making mechanism at the metropolitan level in order to come up with an integrated greenhouse gas reduction strategy. After metropolitan areas have come up with that, relatively quickly and say the way forward for us is whatever it is - heating in the north, cooling in the south or whatever - then there would be an issue of how those strategies could be supported. I think the EU could say that metropolitan areas should produce mitigation strategies, assess the extent to which you can deal with those entirely from your own resources and the extent to which you need supplementary resources beyond that, either through the Structural Funds or nationally.

Mr MacInnes: I think there is a case to be made for the fact that Structural Funds ought not to address these wider issues. There are other mechanisms or other interventions which

should be used for addressing climate change, immigration and so on. Structural Funds only apply in certain areas and these wider issues apply right across the EU, and other interventions should be used for these. I think particularly programmes like the Framework Programmes for research and development, where a lot of money is going into climate change research, should be used more extensively than structural funds for these wider policy issues that are around.

Mr McVey: I might have mentioned earlier that there was huge enthusiasm during the development of our current Structural Fund programmes for the programmes to not necessarily address the underlying issues of climate change and migration but for the funds to be used in a way that recognised that those are issues, they are there; how can we, through economic strategies and Structural Funds, gain some economic advantage as a consequence? Whether that is by ensuring that migrants have the right skills to contribute to the economy or, in terms of climate change, for example ensuring that the local economy builds renewable energy infrastructure, encourages businesses to be more energy efficient and so on, so practical actions at the local and regional level.

Chairman: Thank you very much. Have I swept aside any questions that colleagues were waiting to ask?

Q35 Lord Steinberg: I would just like to ask one. In relation to climate change, which is the “buzz” situation at the moment, do you not sometimes feel in the allocation of your funds that too much emphasis is being placed on this, whereas Britain’s emissions are very tiny compared to the rest of the world and that the money could be used - I know this is not a popular thing to say - more sensibly in other areas within the development of your industries that you are interested in promoting?

Mr McVey: In terms of how the funds are being applied in the region, although the European Commission were very supportive of us using them to address climate change issues, in

particular to work towards a low carbon economy, I should make it clear that was a regional partnership decision, and in Cornwall and the Isles of Scilly in particular a partnership decision there, to go in that direction, to recognise that climate change is an issue and to say, right, in terms of our economy what can we do with the Structural Funds to address aspects of that issue?

Mr MacInnes: I think climate change is too big an issue to be addressed through the Structural Funds.

Mr Read: The only comment I would make is that climate change and energy use are clearly inter-related and most metropolitan areas are concerned to secure their energy futures, and if that has to be on a renewable basis, on a local basis, then that just seems sensible in terms of the cost of carbon fuels in the future, so taking climate change action by securing renewable energy resources for the future helps your economy and helps climate change; it is not a competition there.

Chairman: Thank you all very much for coming. It is very good of you and we have learnt a lot from you. Thank you very much.