

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM



Europe and Scotland
Making it **work together**

SCOTTISH EXECUTIVE
G.06 MERIDIAN COURT

MONDAY 13 JUNE 2005 AT 10 AM

AGENDA

- 1. Welcome**
- 2. Apologies**
- 3. Minutes of 6 December and matters arising**
- 4. Financial performance and implementation of the 2000-06 Scottish Programmes (Paper 1)**
- 5. General implementation issues**
 - 5.1 Annual Implementation Reviews and the Mid-Term Evaluation Updates (Paper 2)**
 - 5.2 Voluntary management subscriptions (Paper 3)**
- 6. Future of the European Structural Funds**
 - 6.1 Update on the 2007-13 European Structural Funds negotiations (Paper 4)**
 - 6.2 Planning for the future Cooperation Objective (Paper 5)**
 - 6.3 Planning for future cohesion policy in Scotland (Paper 6)**
- 7. Date of next meeting**

Scottish Executive
June 2005

Meeting Date: 13 June 2005

Paper Number:

1

Agenda Item Number:

4

For Discussion

Agenda Item:

Financial performance

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

FINANCIAL PERFORMANCE AND IMPLEMENTATION OF THE 2000-06 SCOTTISH PROGRAMMES

Purpose

8. The purpose of this paper is to update Forum members on current progress towards the financial 'N+2' targets for the European Structural Funds programmes for 2005. As members will recall, similar progress papers have been presented at previous Forum meetings.

The 'N+2' rule

9. The de-commitment rule ('N+2') is set out in Article 31 of Council Regulation 1260/1999 and is a financial control designed to encourage sound management of the programmes and avoid end loading of activity. It requires de-commitment of any funds not spent by the end of the second year following the year to which they were allocated. The practical effect of this rule is that failure to meet the annual spending targets means that unspent money will be returned to the Commission budget and therefore lost to the Programmes in Scotland. The annual targets relate to payment of European Structural Funds by the Commission to Member States as reimbursement of expenditure. In order to meet the targets therefore, project development, delivery, spend and regular claims are all essential throughout the programming period.

Effect of exchange rate variations

10. A significant factor influencing progress towards N+2 targets remains the volatility of the sterling/euro exchange rate. As N+2 targets are set in euros, exchange rate fluctuations alter the value of the sterling equivalent required to meet the targets. Over the life of the programmes so far, sterling has moved between €1.66 and €1.40 to the £1. This has tended to work against achieving N+2 as the €value converts into increased sterling figures.

Overall position

11. It is likely that 2005 will be the most difficult year of the current programmes in terms of meeting N+2 targets. This is because resources in the most popular priorities are almost fully committed and the only scope for increasing spend is by converting commitment to spend at a faster rate than before, and by increasing commitment and spend in priorities that have so far proved less attractive to project sponsors. The active participation of all partners will be needed if these challenges are to be met.

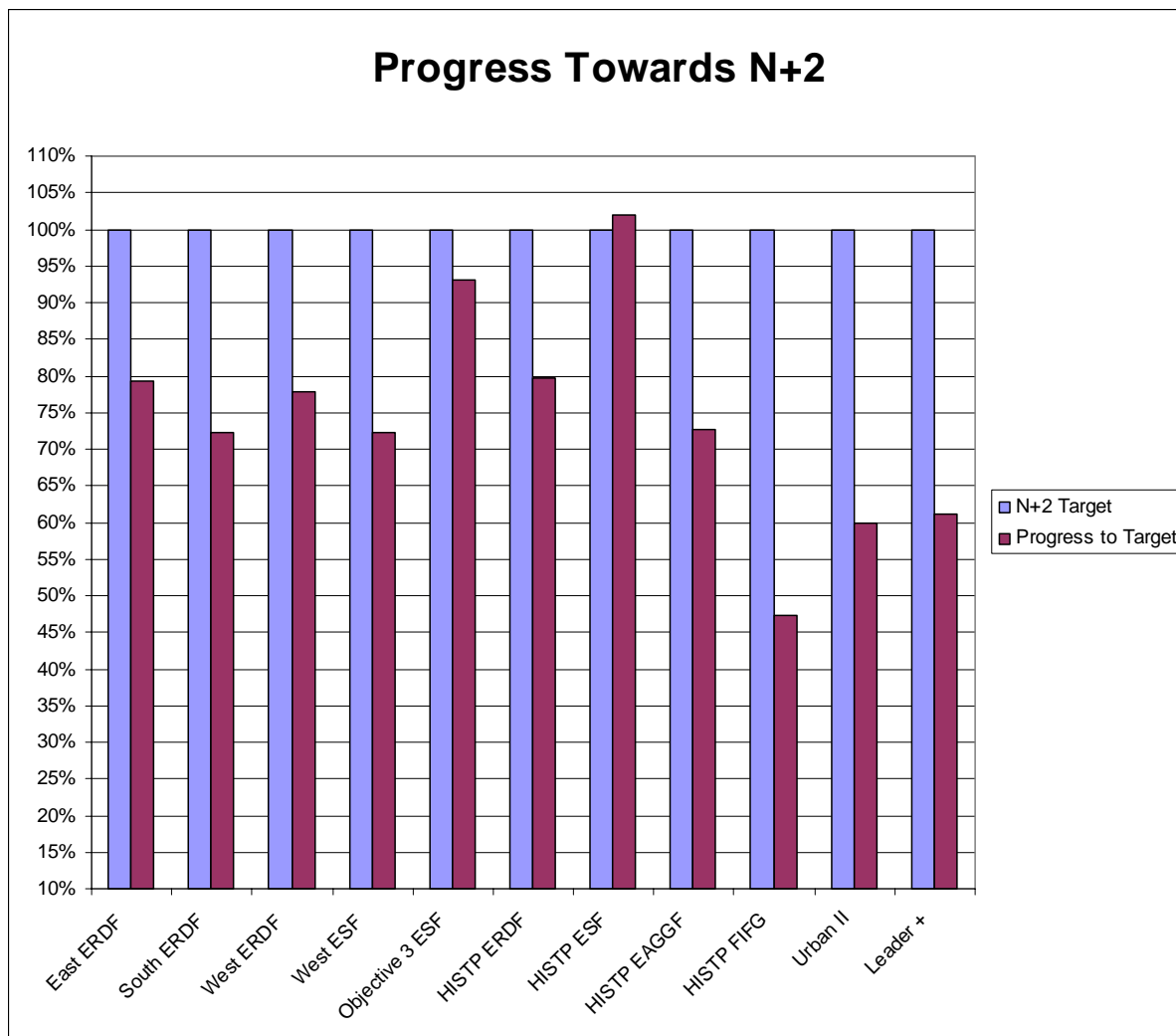
12. Examining the targets in more detail, the following table shows a reasonably encouraging position in terms of level of commitment against the N+2 spending targets (though it should be noted that the N+2 spending target does not take account of the addition of the performance reserve which will be included in the 2006 N+2 targets).

Progress towards achieving N+2 targets

Programme	N+2 budget target (€ for 2005)	Commitment to date (€)*	Commitment as % of N+2 target
<i>East ERDF (eligible)</i>	85,670,800	142,585,900	166%
<i>East ERDF (transitional)</i>	67,020,400	85,389,711	127%
East total	152,691,200	227,975,611	149%
<i>South ERDF (eligible)</i>	36,216,000	54,028,633	149%
<i>South ERDF (transitional)</i>	1,558,000	1,491,935	96%
South total	37,774,000	55,520,568	147%
<i>West ERDF (eligible)</i>	154,269,380	267,923,632	174%
<i>West ERDF (transitional)</i>	94,588,200	91,998,847	97%
West ERDF total	248,857,580	359,922,479	145%
West ESF	32,593,120	43,761,492	134%
Objective 3 ESF	255,268,000	475,779,786	186%
HISTP ERDF	116,430,650	163,580,255	140%
HISTP ESF	34,149,200	44,713,323	131%
HISTP EAGGF	22,805,459	29,938,359	131%
HISTP FIFG	17,323,590	20,859,347	120%
Urban II	5,399,148	9,962,388	185%
Equal	Only at UK level	15,341,201	
Leader +	11,102,270	26,807,812	241%

* - at rate of £1: €1.4765 (May 2005)

6. Moreover, as the following graph shows, good progress is being made in some areas. The Highlands & Islands Programme has met its ESF target for 2005 already, and spend to date in the Objective 3 (ESF) Programme is satisfactory. However, there is a need for substantial improvement in claims performance if the N+2 targets are not to be missed in other Programmes.



7. Claims have not yet reached 20% of the total necessary to meet N+2 in the Western Scotland Objective 2 Programme (ERDF) which is administered by SEP Ltd, or in the Highlands & Islands Special Transitional Programme (ERDF), which is administered by HIPP. Claims for the Western Scotland Objective 2 Programme (ESF) have not yet reached 10% of the necessary level. While it is normal for a greater volume of claims to be received in the second half of the year than the first, claims levels in these two Programmes are sufficiently low to cause some concern. The rate of conversion of commitment into spend has so far been slow in both cases, and high levels of spending and claims will be required over the next six months if targets are to be met. At current exchange rates, valid ERDF claims of over £35 million will be needed in Western Scotland, and in Highlands & Islands, valid ERDF claims of over £16 million will be required if these Programmes are not to lose resources permanently.

8. The outlook in other Programmes is significantly better, though an increased rate of conversion of commitment into spend is still needed. The bar chart at Figure 3 shows that the Objective 2 Programmes in the East of Scotland and the South of Scotland still require claims to the value of about two-thirds of the target if they are to meet N+2 this year. While both Programmes anticipate that claims at these levels will be realised, both are vulnerable to failure or delay of one or more sizeable project. The small URBAN II (Clyde Waterfront) Programme is spending well, and we do not anticipate difficulties in reaching this target.

9. The detailed position for each Programme (as of the end of April) is set out below.

- **Highlands & Islands**

- The **ESF** target has already been achieved.
- The **ERDF** programme is currently £16 (€23.6) million short of its target. At the current rate of expenditure, there may be a risk that this programme could fall short of target, though this may depend on the spend performance of several major projects.
- The **EAGGF** and **FIFG** programmes are currently £2.1 (€3.1) and £0.6 (€0.9) million, respectively, short of their N+2 targets. The Scottish Executive Environment & Rural Affairs Department is confident that these targets can be met.

- **Objective 3**

- The **ESF** programme is currently £11.9 (€17.6) million short of its target. We are confident that this target will be met.

- **South of Scotland**

- The **ERDF** programme is currently £5.7 (€8.4) million short of its target. Again, this target should be met.

- **West of Scotland**

- The **ESF** programme is currently £6.1 (€9) million short of its target. At the current rate of expenditure, there is a substantial risk that this programme could fall short of target, given the proportionally higher share of this sum of the ESF allocation in this programme.
- The **ERDF** programme is currently £35.4 (€52.3) million short of its target. There is a substantial risk that this programme could fall short of target.

- **East of Scotland**

- The East **ERDF** programme is currently £21.5 (€31.8) million short of its target. Again, there is a risk of a shortfall in the target.

- **URBAN II**

- The Community Initiative is currently £1.5 (€2.16) million short of its target. Work is progressing well and we are confident that this target will be met.

- **EQUAL**

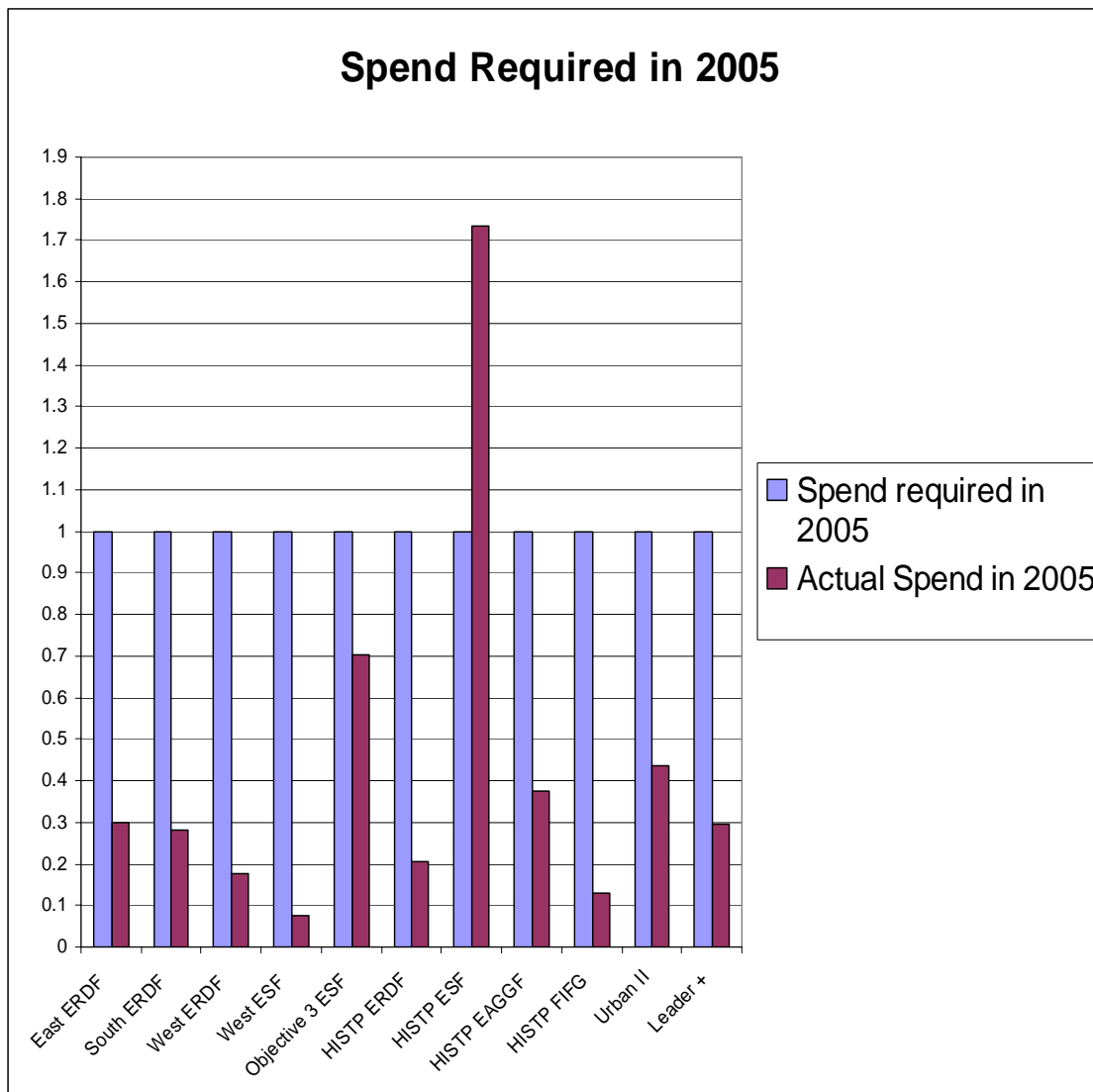
- The Community Initiative is currently £2.73 (€4.03) million short of its target. While Scotland may meet its targets, there are concerns about GB as a whole making N+2 this year.

- **LEADER+**

- The programme is currently £2.3 million short of its target. Work is ongoing with the 13 groups and projections suggest that the N+2 target will be achieved.

Action being taken to address N+2 issues

10. The following graph shows (in percentage terms) the value of spend required to be defrayed during 2005 in order to attain the 2005 N+2 targets.



11. All practical actions to assist these programmes in meeting their targets will be taken. ESFD in the Executive has worked with other policy divisions in ETLDD to bring forward projects in areas such as broadband and manufacturing advice that could assist progress towards spending targets. The Division has also given advice to PMEs on ways to increase the rate at which commitment is converted into spend.

12. In addition, the Monitoring Committee of each Programme has approved an N+2 Action Plan, which is implemented by the PME that administers the Programme. Specific initiatives to increase spend have also been taken in individual programme areas. Examples of actions are set out below.

- **Highlands & Islands**

- The PMC on 25 May confirmed its commitment to the N+2 action plan and, in particular, the proposed series of meetings with project sponsors to re-enforce the N+2 message, highlight projects with perceived difficulties and encourage speeding up of internal procedures to ensure faster preparation and submission of claims.
- Where appropriate, project sponsors have been given clear deadlines by which to demonstrate progress or funding for projects will be withdrawn.

- **Western Scotland**

- The Programme Monitoring Committee agreed at its meeting on 24 February that its members would sign a letter to be distributed to all partners, outlining the N+2 position and stressing the need for claims to be submitted in accordance with agreed profiles.
- An N+2 workshop for partners was held by SEP Ltd on 31 January. This identified action that could be taken to encourage improved claims performance by partners.
- The Chief Executive of SEP Ltd has been asked to provide a paper for the next Programme Implementing Committee meeting on approaches to possible decommitment of underperforming projects.
- All project sponsors have been contacted to obtain up-to-date information on claims they expect to submit over the coming months. Most have now responded.
- A series of meetings is being arranged with key project sponsors to identify any remedial action necessary to ensure targets are met.

- **Objective 3**

- As the Programme nears the end of current funds available, the Executive is writing to those who are late with quarterly claims, those who have not sent in their final claim, those who have had an advance but are late with their first claim, and those with multiple problems.
- The initial aim is to offer help but, to be fair to other sponsors with new projects, re-profiling or de-commitment will also be considered

13. Overall, while these actions should reduce the level of any shortfall, a risk remains that the Western Scotland Objective 2 Programme will miss its targets in respect both of ERDF and ESF, and that the Highlands & Islands will miss its ERDF target, unless partners can convert commitments into spend more effectively than hitherto.

**Scottish Executive
June 2005**

Meeting dated: 13 June 2005

Paper Number: 2
Agenda Item Number: 5.1

For Information

Agenda Item: AIRs and Mid Term Evaluation Updates

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

ANNUAL IMPLEMENTATION REPORTS AND MID TERM EVALUATION REPORT UPDATES

Purpose

1. To provide an update to Members on: (i) the latest position on the Scottish Programmes' Annual Implementation Reports; and (ii) the evaluation underway to fulfil requirements of the European Commission for an Update to the 2003 Mid Term Evaluations of the Programmes.

Annual Implementation Reports

2. Members will be aware of the requirements of Scottish Programmes to submit to the European Commission an Annual Implementation Report (AIR) and Annual Review Document (ARD) by 30 June each year. The Annual Summary Document – summarising these different documents – is attached in the annex to this paper.

3. At the meeting to review these documents with the European Commission last September – the Annual Review Meeting – it was agreed to submit reports earlier in 2005. This was sensibly to allow discussion on the content to take place earlier and allow discussions to be more topical. As such, substantial effort was made by the Scottish Executive and Programme Management Executives (PMEs) to produce the Reports to an accelerated timescale. In addition it was also agreed it would be useful to standardise the chapter structure of the Reports across all the Programmes.

4. All Reports from the Scottish Programmes were submitted to the Commission by the end of May and the Annual Review Meeting will now take place in Brussels on 6 July - almost 3 months earlier than the date of the meeting 2004.

Mid Term Evaluation Update (MTEU)

5. A Mid Term Evaluation Update of Programmes is required to be submitted to the Commission by the end of 2005. Essentially, the Update is intended to provide a review on the implementation of recommendations made by the Mid Term Evaluation (which was completed in 2003) as well as analysis of the programme's results at a point in the programme where such performance issues can be more readily examined.

6. The Updates are to be completed mainly using the internal resources of the Scottish Executive and the PME, along with the National Advisers on Equal Opportunities and Sustainable Development, but with key external inputs through commissioned research (as described below).

7. As part of the Updates one-day Stakeholders events are being held in the first few weeks of June. The events are to allow stakeholders to comment on the analysis of Programme performance produced by the PME/Executive. The events are being facilitated by external consultants and the comments by participants will be synthesised into the chapter on Programme performance to be included in the Update.

8. Several additional studies are also being run to meet specific requirements for the Updates:

- **Social Inclusion Study** – an external study, being undertaken by EKOS, on 3 specific ESF funded measures on social inclusion. These are within the within the Objective 3, West of Scotland Objective 2 and Highlands & Islands Special Transition Programmes. The Study is at interview stage and the Report is due by end July 2005.
- **Study into Priority 5 of the Objective 3 Programme** – another specific study, this time drilling down further into the performance of Objective 3's Priority 5 - *Addressing Gender Imbalance*. This study is internally based with assistance from the National Adviser of Equal Opportunities.
- **Study of horizontal themes** - the National Advisors to the Scottish Programmes on equal opportunities and sustainable development are to assess the impact of these horizontal themes across the Programmes.
- **GB-wide Beneficiaries Survey** – overseen by the Department for Work & Pensions, this report is also underway and is contracted to MORI. The Survey is evaluating the effectiveness of training and advice provided through the European Social Fund. The results of this Survey will feed into the ESF Update.

9. The key milestones for the MTE Update are set out below:

- **March 2005:** Start of Social Inclusion Study (ESF only).
- **June:** One day Stakeholder event for each Programme to consider views on Programme performance and initial analyses (all Programmes).
- **August:** Final Report of Social Inclusion Survey (ESF only).
- **Early September:** Delivery of the Beneficiaries Survey data (ESF only).
- **Late September:** Approval of draft Update by Steering Group (all Programmes)
- **October:** Consideration of Update by Programme Monitoring Committees (all Programmes).
- **December:** Final submission of Update to the Commission (all Programmes).

**Scottish Executive
June 2005**

Meeting Date: 13 June 2005

Paper Number:

3

Agenda Item Number:

6.1

For Information

Agenda Item: Voluntary management subscription

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

VOLUNTARY MANAGEMENT SUBSCRIPTIONS

Purpose

13. To bring partners up-to-date on the Commission's objections to the use of voluntary management subscriptions in financing Programme Management Executives.

Background

14. As members know, the PME's that administer some aspects of European Structural Funds Programmes in Scotland have for many years been funded from two sources: Technical Assistance payments from the Programmes themselves, and voluntary contributions from partners. In the case of the four PME's that are companies limited by guarantee, voluntary contributions are made at an agreed rate in proportion to the awards made to projects sponsored by each partner. In the case of the fifth PME (the South of Scotland European Partnership, which is an operationally-independent arm of Dumfries and Galloway Council) the main partners agree each year to make a fixed contribution to the running costs of the PME.

15. The system of matching technical assistance payments with voluntary contributions has been seen to offer considerable advantages.

- It is equitable, in that partners' contributions to the costs of administering the partnership are proportionate to their involvement in economic development activity.
- It is flexible, since partners' contributions can be adjusted in the light of any collective decision to request an increase or decrease in the level of service provided by a PME.
- It is transparent. All partners are in a position to understand and question the means by which they contribute to programme management costs.

16. This system of underwriting PME costs was called into question by a DG Emploi audit visit to the Scottish Objective 3 Programme in 2004. Following this visit, the auditors concluded that the system of voluntary contributions used in Scotland infringed the terms of article 32.1 of regulation (EC) 1260/1999 which states "*the payment authority shall ensure that final beneficiaries receive payment of their contributions from the Funds as quickly as possible and in full. No deduction, retention or further specific charge which would reduce these amounts shall be made.*" Payments are of course made in full at present, but the auditors from DG Emploi insisted that a voluntary contribution made as a percentage of the amount awarded was tantamount to a levy on the award and thus contrary to the regulation.

17. The Scottish Executive has been in discussion on this issue with the Commission, whose own position has until recently been unclear owing to differences in approach between

DG Regio and DG Emploi. UK Departments have also raised the issue with the Commission, as the issue affects several of the English Government Offices. In March of this year, the Commission reached an agreed stance which is set out in a letter from Graham Meadows, the Director of DG Regio.

18. In many respects the terms of the letter are helpful, especially since it endorses the general principle of partners making voluntary contributions to the cost of administering Programmes. Particular requirements of the letter, however, appear to present serious difficulties for the system of partner contributions used to support the four PME's that are limited companies. Of these, the most problematic is the requirement at para. 3.2.(b) 4 that *"No invoices or other documents establishing a debt, or payment reminders should be sent to the beneficiaries as regards the payment of a contribution."*

19. Precisely because awards are paid in full as required by the regulations, and partner contributions are not deducted at source, PME's need a means to request payment of agreed contributions, and to remind partners when voluntarily-agreed contributions have remained unpaid. Graham Meadows' letter is problematical in this respect, principally as it would be difficult for partner organisations to make payments in the absence of an invoice and potentially create problems for the PME's to continue recovering VAT as they do at present.

20. To avoid any potential financial difficulties for the PME's, the Executive has now written in detail to the Commission, outlining the difficulties caused by its letter. The issue was taken up by the Deputy First Minister in his meeting with the Regional Policy Commissioner, Danuta Hubner, on 17 May, at which Commission services were charged were taking forward discussions with Executive officials with the intention of achieving a resolution as soon as possible. The situation will be reviewed at the Annual Review Meeting with the Commission in July.

9. The new draft regulations have tightened the wording on the current Article 32 – cited above – making it highly unlikely that the Commission would accept the voluntary management subscription model in any future programming.

**Scottish Executive
June 2005**

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

UPDATE ON THE 2007-13 EUROPEAN STRUCTURAL FUNDS NEGOTIATIONS

Purpose

21. To inform Forum members of recent developments in the negotiations of the 2007-13 European Structural Funds.

Structural Funds negotiations

22. Following the publication in July 2004 of the Commission's draft regulations on the European Structural Funds, for the 2007-13 period, formal negotiations began in the Council in September. The negotiations were pursued along two tracks: the European Structural Funds regulations themselves in the Structural Actions Working Group (SAWG) and wider budgetary and financial matters in the Ad Hoc Financial Group. The Department of Trade and Industry is the lead UK department in SAWG – the Executive participates in the weekly Core Negotiating Group meetings to set negotiating lines and has a part-seat in the UK delegation to the Group. HM Treasury is the UK representative on the Ad Hoc Financial Group (and its follow-up group in the Luxembourg Presidency, the Friends of the Presidency).

23. On European Structural Funds issues, progress under the Dutch Presidency was good. As was expected, the initial SAWG meetings were used by Member States to set out their views on the Commission's proposals rather than achieve consensus. However, there was significant agreement on the way forward on many aspects of the regulations. Member States are successfully pressing for greater simplification in the Commission's proposals, particularly with respect to the principle of proportionality in the administrative requirements for delivering programmes. The greater strategic focus in the Commission's proposals – with a more explicit link between the Structural Funds and the Lisbon and Gothenburg agendas – has also been welcomed, but Member States largely agree on the need for more subsidiarity in support of a more bottom-up approach to programme design.

24. Negotiations under the Luxembourg Presidency have not continued at the same pace as under the Dutch. While Luxembourg has made a budget deal one of its key aims for its Presidency, as yet, it appears highly unlikely that a deal will be achieved before the end of June, despite efforts to agree a compromise deal (through the so-called 'negotiating box'). Consequently, negotiations will continue into the UK Presidency in the latter half of 2005, though the possibility of the negotiations spilling into 2006 is increasing. Moreover, the requirement for co-decision with the European Parliament could invoke further delay.

5. With respect to the European Structural Funds themselves, again, progress has been limited under the Luxembourg Presidency. The European Social Fund regulation has largely been agreed within the Council Working Group, but with respect to the General regulation,

while there is agreement on many key common principles, little consensus yet exists on much of the detail. Similarly, a diversity of views continue to exist on the European Regional Development Fund regulation, not least on questions of eligibility. Resolving the outstanding issues in the regulations will be one of the priorities of the UK Presidency.

Strategic Guidelines

25. The Guidelines are the high-level strategic priorities for EU regional policy which are proposed by the Commission but agreed by the Member States through the Council. They set the key priorities which Member States and ultimately, programmes, should address at a general level. As the first stage in future programme development, the Commission has begun the drafting and consultation on the new Strategic Guidelines.

26. The Commission held a series of bilaterals with Member States on their views of what should go into the Guidelines. On 11 April, the UK Government met with Commission officials. ESFD officials attended on behalf of the Executive and made a presentation of Executive regional development priorities based on the refreshed Framework for Economic Development for Scotland and Smart Successful Scotland. Following these bilaterals with Member States, the Commission presented its draft of the Guidelines at the Regional Policy Ministerial Informal in Luxembourg on 20 May for discussion. They will now be subject to further negotiation under the UK Presidency.

27. The Guidelines present 3 priorities:

- **making Europe and its regions a more attractive place to invest and work:** particular with respect to expanding and improving transport infrastructures, improving the environmental contribution to growth and jobs, addressing Europe's intensive use of traditional energy resources, and helping to maintain a healthy labour force;
- **improving knowledge and innovation for growth:** especially increasing and improving investment in R&D, facilitating innovation and promoting entrepreneurship, promoting the information society for all, and improving access to finance; and
- **more and better jobs:** through attracting and retaining more people in employment and modernising social protection systems, improving the adaptability of workers and enterprises and the flexibility of the labour market, and increasing the investment in human capital through better education and skills.

28. The draft Guidelines reflect many of the key issues and priorities embedded in the Executive's key strategies. A list of the proposed priorities of the Structural Funds – as presented in the regulations – is given in the annex. However, there are some areas which the Executive – in common with the UK – has argued should be given greater emphasis. In his meeting with the EU Regional Policy Commissioner, Danuta Hubner, in Brussels on 17 May, the Deputy First Minister made the point that Community Economic Development should be given greater prominence as a theme given its potential to contribute to achieving the Lisbon and Gothenburg agendas.

**Scottish Executive
June 2005**

ANNEX: STRUCTURAL FUNDS PRIORITIES FOR THE 2007-13 PERIOD

The priorities set for future Structural Funds programmes differ depending on the type of Fund (ERDF or ESF) and the area covered (Highlands & Islands or Lowlands Scotland). The left-hand columns list the priority – and sub-priority – in the current draft of the new regulations. The right-hand columns set out the types of activities that could be supported in the programmes.

ERDF

Lowlands Scotland: Competitiveness Objective

Regulation priority	Type of activity funded
<i>Knowledge economy</i>	
Enhancing R&TD/innovation capacities	<ul style="list-style-type: none"> • Support for intermediate technology centres • Technology transfer schemes • Direct support for inter-firm RTD collaboration
Stimulating SME innovation	<ul style="list-style-type: none"> • University-business cooperation • Support for SME clusters • Specialised advisory support for SMEs
Promoting entrepreneurship for knowledge-intensive firms	<ul style="list-style-type: none"> • Commercialisation of HEI research • Support for entrepreneurs in knowledge-intensive fields
New financial instruments and incubation facilities for knowledge-intensive firms	<ul style="list-style-type: none"> • Venture capital and incubator support for knowledge-intensive firms
<i>Environment/risk prevention</i>	
Investment for land reclamation	<ul style="list-style-type: none"> • Reclamation of brownfield and contaminated land • Support for biodiversity infrastructure
Energy efficiency/renewable energy	<ul style="list-style-type: none"> • Energy efficiency schemes • Renewable energy projects
Clean urban public transport	<ul style="list-style-type: none"> • Anti-pollution campaigns • Pilot schemes for use of non-petrol fuelled vehicles
Environmental risk plans	<ul style="list-style-type: none"> • Flood risk prevention actions
<i>Transport/telecoms access</i>	
Improving secondary networks	<ul style="list-style-type: none"> • Support for secondary roads • Support for minor railway links • Investments in inland waterways
Better ICT use by SMEs	<ul style="list-style-type: none"> • Schemes encouraging internet take-up

Highlands & Islands: Convergence Objective

Regulation priority	Type of activity funded
<i>RTD, innovation and entrepreneurship support</i>	<ul style="list-style-type: none"> • Aid for SME RTD • Technology transfer schemes • Links between research centres
<i>Information society support</i>	<ul style="list-style-type: none"> • Schemes encouraging internet take-up • Better online public sector service provision to SMEs
<i>Environment, including water/waste management and land reclamation</i>	<ul style="list-style-type: none"> • Better waste management systems • Promotion of environmental management systems • Reclamation of brownfield and contaminated land
<i>Prevention of environmental risks</i>	<ul style="list-style-type: none"> • Flood risk prevention actions
<i>Support for cultural heritage/tourism</i>	<ul style="list-style-type: none"> • Investments in tourism sites • Training for tourism services
<i>Transport investments</i>	<ul style="list-style-type: none"> • Investments in major roads • Port investments • Environmentally-friendly transport strategy development
<i>Energy investments</i>	<ul style="list-style-type: none"> • Energy efficiency schemes • Renewable energy projects
<i>Education investments</i>	<ul style="list-style-type: none"> • Investment in HEI infrastructure
<i>Improving health provision</i>	<ul style="list-style-type: none"> • Health campaign programmes
<i>Direct investment aid to SMEs</i>	<ul style="list-style-type: none"> • Investment aid schemes for SMEs

ESF

Lowlands Scotland: Competitiveness Objective

Regulation priority	Type of activity funded
<i>Worker adaptability</i>	
Investing in enterprises HR through support for lifelong learning	<ul style="list-style-type: none"> • Schemes for skills upgrading in companies • ICT/management skills training in companies
Preparing enterprises for economic change through forward research and support services	<ul style="list-style-type: none"> • Future skills needs strategies • Support services for workers in restructuring enterprises

<i>Tackling unemployment</i>	
Improving labour market institutions (especially employment services)	<ul style="list-style-type: none"> • Capacity-building – mainly activities anticipated in the new Member States.
Support for individuals for job search and self-employment	<ul style="list-style-type: none"> • General advisory job search services • Business advice support for start-ups
Positive actions for women and gender mainstreaming	<ul style="list-style-type: none"> • Gender pay gap studies • Promotional campaigns • Direct support for childcare and childcare capacity building
Supporting migrants	<ul style="list-style-type: none"> • Basic skills training, such as language
<i>Social inclusion</i>	
Integrating disadvantaged into labour market (including social economy)	<ul style="list-style-type: none"> • Employability/labour market access support – a wide range of schemes including New Deal and Scottish Enterprise training • Social economy firms support (eg. Futurebuilders)
Anti-discrimination actions	<ul style="list-style-type: none"> • Promotional campaigns
<i>Stakeholder networks</i>	<ul style="list-style-type: none"> • Support for stakeholder events on employment/social inclusion

Highlands & Islands: Convergence Objective

The same as those listed above as well as the following.

Regulation priority	Type of activity funded
<i>Human capital investment</i>	
Education/training system improvements	<ul style="list-style-type: none"> • Business training for teachers • Pilot programmes for new ICT educational initiatives
Improving education participation (including early school leaving actions)	<ul style="list-style-type: none"> • Vocational training support • Pilot actions to reduce early school leaving
Support for RTD post-graduates	<ul style="list-style-type: none"> • Encouraging networking among university researchers • Support for researcher events
<i>Better public administration</i>	
Better programme design	<ul style="list-style-type: none"> • Good practice events/studies on programme design
Staff capacity building	<ul style="list-style-type: none"> • Training of programme staff

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

PLANNING FOR THE FUTURE COOPERATION OBJECTIVE

Purpose

1. To set out the planning framework for the development of Scottish involvement in future Structural Fund cooperation programmes from 2007.

Background

2. Under the current round of Structural Fund Programmes, Scotland has been pursuing Structural Funds-supported transnational cooperation as a member of 4 Interreg IIB programmes which have been developed through the Community Initiatives. The programmes aim to encourage transnational cooperation. The four programmes are the Northern Periphery, North Sea, Atlantic area and North West Europe. Scotland leads for the United Kingdom on the Northern Periphery Programme whilst the Office of the Deputy Prime Minister leads on the other three programmes.

3. In the Commission's proposals for the new programming period (2007-13), the Community Initiatives have been mainstreamed into a stand-alone Cooperation objective. This objective is divided into three strands, broadly mapping onto the existing initiatives: cross-border cooperation (CBC), including both funding for intra-EU cooperation and support for cooperation with states neighbouring the EU; transnational cooperation (TNC); and support for cross-EU networking initiatives. In addition, interregional cooperation (IRC) is to be pursued as part of the mainstream Convergence and Competitiveness programmes. Under the proposals, the Cooperation objective would receive an allocation of almost 4% of the overall Structural Funds budget, equating (under the Commission's proposed financial model of 1.24% of GNI) to €13.2bn in total. This is an almost threefold increase on the current funding of Interreg. The proposed cooperation objective budget at EU level breaks down as follows:

CBC	€6.3b
TNC	€6.3bn
IRC and networks	€0.6bn
<u>Total</u>	<u>€13.2bn</u>

4. The new Objective is solely funded from ERDF and its specific provisions are contained within the ERDF Regulation. Key features of the new Objective which differ from the current arrangements include:

- a common co-financing rate of 75%, regardless of status of the territory of the project partner;
- the lead partner principle has been enshrined in regulations and the audit and control provisions for the objective have been tightened;

- bilateral maritime cross border activity can be delivered through the transitional strand where such cooperation exceeds the 150km indicative limit of a cross border programme; and finally,
- prior to programming MS have a right to use up to 10% flexibility between cross border and transnational strands in terms of national allocations.

5. There is little consensus as yet in the negotiations on the Cooperation proposals. While there is broad agreement on the principles behind the proposals – including from the UK, which supports the Objective being applied in the UK (unlike its views on the other Objectives in the Commission’s proposals) – the detail of the proposals is unlikely to be resolved before the end of 2005. Consequently, the final structure, funding allocation and focus of the proposals is still to be determined.

Future cooperation and Scotland

6. Forum members will know from the Analytical Working Group reported that Scotland’s notional ‘allocation’ could be as much as €70 million under the Commission’s proposals for this Objective, but this is a rough estimate. Any final sum will depend on the allocation methodology yet to be agreed in the negotiations. In any case, it is likely to represent a significant increase on what is currently available to Scotland.

7. Originally, Scotland’s eligibility was thought to be limited to transnational. Eligibility criteria for cross-border – particularly with respect to maritime borders – appeared to rule out any Scottish regions. However, following liaisons with the Commission – including discussions by the Deputy First Minister and the Regional Policy Commissioner, Danuta Hubner – it now appears that a Scotland–Ireland programme may be possible. This would include Dumfries & Galloway; ‘Ayrshire’; Argyll & Bute; and Skye & Lochalsh (though these are to be confirmed). Programming options are currently being investigated with Northern Ireland and Wales, who already have programmes with the Republic of Ireland.

8. Under transnational cooperation, the scope appears to exist for Scotland to deepen its involvement in two current programmes: North Sea and Northern Periphery. The latter will be the focus of Executive efforts over the coming months. The Northern Periphery programme area has yet to be agreed by the Commission, so we are concentrating on securing agreement of the programme area while exploring with Nordic partners the potential for extending the broader Scottish–Nordic Cooperation Action Plan to the new Baltic Sea Member States, with potential funding from any new NPP on a project-by-project basis.

9. With an enhanced budget, there is greater scope for more tangible projects to be developed under the programmes. Consequently, it is important now for partners to begin considering how they can maximise availability of these funds in specific cooperation projects.

**Scottish Executive
June 2005**

SCOTTISH EUROPEAN STRUCTURAL FUNDS FORUM

PLANNING FOR FUTURE COHESION POLICY IN SCOTLAND

Purpose

29. To set out the planning framework for the development of any potential regional development programmes Scotland may receive in the 2007-13 period and their delivery arrangements. In particular, this paper sets out the principles under which potential future programmes would be developed. Four key sets of questions are discussed:

- How many European Structural Funds programmes should be developed?
- How should they be delivered?
- How could they be managed?
- What would the process of programme development be?

Background

2. As noted in the update paper on the EU negotiations on the future of the European Structural Funds also presented to this meeting, the negotiations on the future of the Structural Funds are unlikely to be resolved before preparations need to begin on potential future programmes. On the basis of previous experience, programmes require approximately 18 months to be developed. Consequently, the Executive believes that preparations for programmes in Scotland need to begin on a provisional basis if we are to make the proposed start date of 1 January 2007 and avoid any possible hiatus between programmes. Similar preparations are already underway across the UK. The Office of the Deputy Prime Minister and the Department for Education & Skills are taking the lead in planning for future programmes in England, as has the Welsh Assembly Government for Wales. As in Scotland, all programmes are being developed on a contingency basis and on the understanding that they would only be taken forward depending on the final budget settlement.

3. Without a final budget deal, programming would take place against a background of uncertainty over the scale and scope of any potential funding. With respect to the scale of funding, the only clear indication is that whatever European Structural Funds support Scotland may receive in future, it would be significantly less than at present. At the last meeting of the Forum, the Analytical Working Group reported what Scotland would receive under the Commission's proposals. Under current GDP per capita figures, the Highlands & Islands would qualify as a 'statistical effect' region under the Convergence Objective while Lowlands Scotland would be eligible for Competitiveness Objective funding. The sums in the table below should be regarded as a ceiling on Scotland's potential receipts, and represent a substantial drop on current funding levels. If the UK position was to succeed, apart from the

Cooperation Objective, Scotland would receive no European Structural Funds support – consequently, the range of possible funding outcomes remains significantly large.

	2000-06 SF allocation (£ mn)	Commission proposal for 2007-13 allocation (£ mn) (ERDF and ESF)
Highlands & Islands	210	210
Lowlands Scotland	900	500
Scotland as a whole	1,100	710

4. Similarly, there remains considerable uncertainty on the future scope of funding. The content of the regulations will be subject to revision throughout the course of the negotiations, making it difficult to determine accurately what would be eligible under any future programmes. The regulations would impose greater restrictions on the range of activities that could be funded by future European Structural Funds, particularly for any potential ERDF programme under the Competitiveness Objective.

Number of future programmes

5. Programmes would be prepared on the basis that Scotland could have both Convergence and Competitiveness programmes. Under the new regulations, only ‘mono-fund’ programmes can be operated: ie. unlike at present, separate European Regional Development Fund (ERDF) and European Social Fund (ESF) programmes would be required. EAGGF and FIFG resources would be mainstreamed into the new Rural Development Programme.

6. With respect to ESF, separate programmes for Highlands & Islands and for Lowlands Scotland would be explored.

7. With respect to ERDF coverage of Lowlands Scotland, the regulations allow a number of different options: several ERDF programmes covering parts of Lowlands Scotland (similar to the existing Objective 2 programmes) or a single Lowlands-wide ERDF programme. The latter option is favoured by the Executive. As the table in paragraph 4 highlights, any ERDF sums coming to Lowlands Scotland would be greatly reduced at best, making the operation of multiple ERDF programmes in Lowlands Scotland complex, expensive, overly bureaucratic and vulnerable to the continuing requirements of N+2. A single programme would ensure considerable flexibility for managing the financial challenges of the new programming period while still being responsive to policy needs at national and local levels.

8. The new programmes could be developed with a view to the differing spatial needs of Scotland. As part of programming, a variety of mechanisms would be explored to ensure that funding was distributed through the different priorities according to an agreed set of spatial criteria, particularly in Lowlands Scotland.

Delivery of future programmes

9. Historically, European Structural Funds have been distributed in Scotland on a challenge fund basis, in which organisations have bid into individual programmes on a project-by-project basis through a series of funding rounds. Match-funding support from a

public sector partner organisation has had to be demonstrated with each application. The approach is widespread in other Executive policy areas such as social inclusion, where the new Futurebuilders initiative will support the most innovative and high-quality proposals from social economy organisations seeking to tender for contracts. The model has a number of advantages in that: it is open to all bodies to apply; requires public sector match funding support; aims to encourage better quality initiatives; and is a bottom-up approach originating in the organisations, sectors and communities where funding is needed.

10. Post-2006, this model would come under substantial strain. In light of the reduction in the scale and scope of funding, there would be a need for a new, more strategic approach to future European Structural Funds delivery. A greater premium would be placed on targeting Structural Funds on value-added activities that closely fit with existing policy initiatives in Scotland. In other Member States, this has been achieved through the use of *co-financing*. Under co-financing, blocks of funding are allocated to particular schemes and their delivery agents – for example, in England, most funding in the current Objective 3 programme has been awarded to ‘Co-Financing Organisations’ (CFOs) such as Jobcentre Plus and the Learning Skills Councils. These CFOs provide 100% funding to successful applicants and are responsible for finding the required match-funding rather than applicants. Open and competitive tendering still takes place, but the key difference is that projects are selected to fit with the CFO’s strategic priorities and without the need of the projects themselves having to demonstrate match-funding.

11. In the changing environment of post-2006 funding, co-financing could have several attractions. In many cases, it would simplify application and reporting arrangements for partners by combining match-funding and European Structural Funds support into the same funding source. It would also enable what funding Scotland did receive was targeted on agreed strategic priorities using, wherever possible, existing delivery mechanisms. In this context, co-financing fits with the tighter thematic focus of programmes. Overall, there are clear links between the emerging priorities of the future Structural Funds – with its emphasis on the Lisbon and Gothenburg agendas – and the *Framework for Economic Development in Scotland, Smart Successful Scotland* and the new Employability Framework.

12. In England, the introduction of the system was accompanied by a number of problems, largely deriving from the system starting partway into the new programming period. To date, independent evaluations of the English system have generally highlighted the value of the approach, but we will need to ensure that any such system being applied to Scotland takes full account of the particularities of policy delivery in Scotland and the impact on different sectors and policy areas. Consequently, the Executive is commissioning an independent evaluation to examine the relevant studies and draw attention to any potential issues for Scotland.

13. There is capacity for co-financing in Scotland. Examining the current ESF and ERDF regulations, which set out the areas of eligible expenditure, several priorities complement existing Scottish policy priorities and delivery agents. A full list of the priorities is given in the annex to the update paper also presented at this meeting. However, while the options for applying this approach will be explored over the coming months, it is recognised that an element of the challenge fund approach may be necessary where co-financing is neither feasible nor unable to provide the most added value for particular priorities. As a result, a hybrid approach may be developed.

14. While a co-financing approach could bring significant benefits in terms of simplifying and focusing funding, it would also present a number of financial responsibilities for the CFOs. Any co-financing funding allocated to CFOs would be governed by operating agreements which would set out the outputs and results to be achieved by the funding, ensure spending complied with N+2 targets and set down the audit requirements for the stewardship of EU funding. Agreements would be reviewed on an annual basis.

Management of future programmes

15. In many respects, the management arrangements for the new programmes would be broadly similar to the present. The Executive would continue to have responsibilities as Managing and Paying Authorities and Programme Monitoring Committees would still exercise an overall guiding role on key programme decisions. However, one area that would need to change is the current role of the Programme Management Executives (PMEs).

16. The 2000-06 European Structural Funds programmes are administered through 5 PMEs each covering a different part of Scotland and each delivering a different programme. The PMEs support the Executive in certain tasks, notably provision of a secretariat, overseeing award appraisal, claims checking and project monitoring. This system evolved during the early and mid-1990s, as some PMEs were separated from the Local Authorities from which they had grown and became – in most cases – private companies. This approach has been considered appropriate for the value and scope of the existing programmes and it has achieved high levels of interest in, and engagement with, the programmes by partners.

17. However, if there are to be fewer programmes to deliver and a degree of co-financing, the current PME system would need to be rationalised. With funding delivered directly to CFOs and on the basis of the programming structure discussed in paragraphs 7 and 8 above, it is envisaged that only 2 PMEs would be required: one covering the Highlands & Islands, the other, Lowland Scotland. The size and responsibilities of these future PMEs would be determined by the scale of any programmes that Scotland receives, but it would be essential to ensure that the value added activities of the PMEs would be retained under any future scenario. Consequently, PME responsibilities could include overseeing the challenge-fund component of the programmes and their current monitoring obligations.

18. The selection of any future delivery bodies would need to be done on a competitive basis in line with Executive policy and the recommendations of the European Court of Auditors report on the PMEs. It would also build on the Operating Agreements recently signed by the current PMEs and the Executive. More work would need to be done to scope out the tendering and funding arrangements, but the timing of tendering would be dictated by the conclusion of a final budget deal.

Planning programme development

19. Programming would be overseen by the European Structural Funds Division within the Executive. The programmes would be designed to complement closely the priorities set by key Executive strategies such as the refreshed Framework for Economic Development in Scotland, Smart Successful Scotland and the new Employability Framework. They would also take account of the experience of the existing programme, particularly those activities where the European Structural Funds added the most value, socio-economic assessments of wider developments in Scotland, and the financial and performance track records of supported activities and organisations from the current programme.

20. Bilateral discussions have already been held between the Executive and key partners on the scope of the new regulations for supporting different policy areas. At these meetings, partners have been asked to review their Structural Funds activity over the past period and look ahead to their policy initiatives in the new programming period so that they can identify what priorities could be supported while taking account of the likely reduced funding opportunities. Executive officials will continue to meet with stakeholders to gather their views on future programming priorities through the summer.

21. Following these meetings, a series of programme-specific stakeholder groups will be set up to assist with programme development. Representatives will be drawn from partners. It is hoped that these groups will hold their first meetings in the autumn. The intention is to begin drafting any potential programmes towards the end of 2005 with a view to drafts being ready for discussion by Easter 2006 and possible submission to the Commission by mid-2006, depending on progress in the negotiations.

**Scottish Executive
June 2005**