

hall aitken

social and economic regeneration consultants

Structural Funds post 2006 – stakeholders' views

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INVESTOR IN PEOPLE

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Introduction

To take forward the discussion on the preparation of future Structural Funds programmes, the Scottish Executive organised a series of stakeholder events across Scotland in December 2005 and January 2006.

The wider background

The current Structural Funds programming period finishes at the end of 2006 and the new one starts on 1 January 2007. Much debate has surrounded the future of Structural Funds in recent years in recognition of the pressures on the budget caused by the enlargement of the EU and the need to focus the bulk of cohesion funding on the 10 new Member States that are relatively less prosperous than the original 15. Central to this debate have been the negotiations on the future EU budget for the 2007-2013 period as well as the EC Regulations which will define how future Structural Funds can be spent.

In December 2005 the UK Presidency successfully negotiated agreement on the EU budget which still needs to be ratified by the European Parliament. The budget deal means that all of Scotland will be eligible for Structural Funds support, although at a reduced level. It is not possible to put a precise figure on what Scotland will receive at this stage. However, if agreed by the Parliament, the Highlands & Islands could expect to receive up to 60% of what it currently receives as a transitional "statistical effect" region under the Convergence Objective, the highest level of funding available. All of the rest of Scotland will be eligible to receive funding under the Competitiveness Objective. The scale of this funding is dependent on agreement within the UK on how to divide Competitiveness funding between the nations, but it is anticipated that it would be no larger than 45 percent of current funding levels.

Preparations for provisional programmes have begun in Scotland, as they have in other parts of the UK. Preparations are at an early stage and no decisions have been taken on final arrangements, as there are several areas requiring further research and wider discussion.

Consulting across Scotland

As part of this discussion, a series of four stakeholder events took place throughout Scotland in the existing programme areas:

- ❑ 8 December in Inverness;
- ❑ 10 January in Dunfermline;
- ❑ 18 January in Easterhouse, Glasgow; and
- ❑ 24 January in Melrose.

Approximately 220 stakeholders representing close to 100 organisations came together at the day-long events to discuss the priorities for future programmes and the options for delivering future funding. The participants were drawn from the key partners that have been involved in Structural Funds across Scotland, including members of Programme Monitoring and Management/Implementation Committees, Advisory Groups, staff of the Programme

Management Executives, the Scottish European Structural Funds Forum, representatives from policy Divisions within the Scottish Executive as well as from the projects themselves.

This report summarises participants' responses and the key issues that were raised.

Programmes post 2006

The Scottish Executive has indicated an intention to have four programmes in future – an ESF programme and an ERDF programme in each of Highlands & Islands and Lowlands & Uplands. The focus of the morning sessions was on draft priorities for 2007-2013 that had been elaborated by the Executive. Delegates were invited to respond to the proposed sets of priorities in the workshop discussion groups and the feedback sessions.

The priorities were presented to partners in a series of discussion papers which are now available on the Scottish Executive's website at: www.scotland.gsi.gov.uk/structuralfunds.

ESF

Background issues

Two ESF programmes have been proposed for the 2007-2013 period: one in the Highlands & Islands and one in Lowlands & Uplands Scotland. The priorities are the same for both programmes, though it is recognised that they will need to be further refined to capture fully the needs of each region. The outlines presented reflected priorities and potential target groups.

In general terms, participants welcomed the scope of the draft priorities for the new ESF programmes. However there were critical comments made at each workshop about the number of target groups presented. Some considered that many of the groups were the focus of other sources of intervention and it would therefore not be the best use of ESF to add funding in these areas. Others described the priorities as too much of a rolling-forward of existing and previous ESF programmes. They agreed on the value of linking Structural Funds to Scottish Executive priorities and strategies as long as programmes took account of regional and local needs. The focus in each priority should be determined by evidence showing the impact of particular interventions on Scotland's competitiveness. The risk of a change of approach to maintaining the level of innovation in projects was cited as a worry. One way to address this could be using the LEADER+ and EQUAL models, from which programme planners could adapt design elements, such as partnership models and the involvement of policy makers. In terms of measuring programme performance, delegates also called for fewer, but measurable targets in the programmes.

A major issue was finding the right balance between addressing rural and urban needs through the programme priorities. Highlands & Islands stakeholders expressed some concerns that language in the priorities was not always as relevant in the Highlands & Islands context. Moreover, skills development under Priority 2 (particularly for higher-level skills) and improvements to the learning and training infrastructure appears to have a

proportionately more significant priority in the Highlands & Islands than in Lowlands & Uplands Scotland. This could reflect the relatively low unemployment rates in the Highlands & Islands as well as the different employability issues (for example, a greater need for skills upgrading was identified).

A balance was also needed between support for activities addressing either labour market supply or demand. In particular, employment issues – such as hidden unemployment – required strong links between the skills agenda and the growth agenda. Overall, the new programming period was seen as an opportunity to link ESF and ERDF interventions better. Stakeholders commented favourably on the potential the proposed priorities offer for joined up activities. Beyond that, links to other sources of EU funding, such as rural development and fisheries, were also considered important, particularly at local level. Any new delivery system should support and facilitate such linkages. One suggestion for achieving this would be better coordination of funding, potentially through the same Programme Monitoring Committees or through regional Programme Management Committees.

Priority 1

Many delegates were of the view that this priority should concentrate on increasing the size of the productive workforce, targeting:

- NEETs and school drop-outs;
- older workers who needed re-skilling;
- asylum seekers – offering them English as a second language and re-validating their skills;
- those in the Fresh Talent initiative;
- lone parents; and
- people with disabilities.

It was considered that the focus should be on groups with significant and multiple barriers, but who were also likely to improve Scotland's overall productivity performance. Activities should target the achievement of qualifications, but, as this was often difficult, delegates recognised that soft outcomes and "distance travelled" were important as well.

The idea of encouraging self-employment and business start-ups among those with barriers to employment found support. In this context a rural employment measure to match ERDF rural priorities was suggested, with particular assistance for graduates to start up rural businesses.

Many stakeholders agreed that the programme should not try to support the "middle ground" of those nearest the labour market where Jobcentre+ and Scottish Enterprise operated and funding should be targeted on the 'hardest-to-reach' groups. Others argued that supporting employers and beneficiaries when the latter get into work added the most value.

Priority 2

Several delegates felt that this priority should concentrate on helping those in the labour market make measurable progress in moving to higher skilled, better paid and more sustainable employment. Stakeholders agreed that good links with employers were essential. Interventions should therefore focus on meeting SMEs' needs and be based on Future Skills Scotland (FSS) information to be proactive about opportunities for future skills requirements, especially where Scotland performed less well than other countries.

There was a strong consensus that the focus should be on three areas:

- ❑ literacy and numeracy for those in work without core skills;
- ❑ SVQ levels 3 or 4 for those in employment linked to the productivity needs of companies; and
- ❑ management and e-commerce training for start-ups and SMEs (possibly linked to R&D spin-off companies in ERDF Priority 1), leading to a qualification.

A number of other areas were identified by stakeholders for future support under this Priority. The programme should support management and marketing training for social firms. It should support training for people in seasonal or part-time work to raise skills and flexibility levels while individual large scale redundancies could also be tackled by re-training.

Many considered that ESF should no longer, however, fund:

- ❑ advice or other services already on offer from Business Gateway; and
- ❑ Investors in People or Modern Apprenticeship schemes – although some felt that the funding could be used to widen access to the Adult Apprenticeship scheme which was felt to be under-funded.

One aspect delegates thought was missing was a focus on environmental issues, such as awareness-raising and skills development in this field. Raising environmental awareness and job creation and growth could go hand in hand.

Priority 3

Opinions differed on whether this priority should mainly target those in or out of work. Stakeholders agreed, however, that it should concentrate on innovative ways of offering equality of access to post school education for the groups least likely to participate at present. Suggestions ranged from help to SMEs, using online training for their staff, to training delivery through mobile phones and iPods. Funds could also be available to publicise and disseminate new materials. Priority 3 of the current programme was recommended as a source of good examples of access to education and lifelong learning.

EQUAL could also serve as a model for mainstreaming access systems. Delegates pointed out that Priority 2 offered the opportunity for joint ESF/ERDF capacity building and innovative access to education. Lessons could be learned from the Highlands & Islands programme.

ERDF

Background issues

Two ERDF programmes have been proposed for the 2007-2013 period: again, one in the Highlands & Islands and one in the Lowlands & Uplands. However, the priorities in the two programmes differed significantly in some respects, reflecting the different eligibility criteria for Convergence and Competitiveness Objective areas.

Stakeholders found the priorities comprehensive – perhaps too much so as it was difficult to see how the available funding could be stretched to address all the objectives. On the other hand, there was only limited indication from delegates of which areas should no longer be supported by Structural Funds. It was noted that deciding what to leave out should include looking at who else could support activities previously funded by Structural Funds.

Participants emphasised that it was important to identify areas of focus within the proposed priorities. In the Highlands & Islands, stakeholders would like to see these better tailored to the region's particular circumstances. In this context, rather than identifying such overriding priorities at the stakeholder events, delegates pointed to important projects to take forward in the coming period. These included the continuing improvement to the UHI Millennium Centre – as it sought full university status – and continuing improvements to the transport and communication infrastructure.

Delegates commented on how funding might be distributed within a single Lowlands & Uplands area. There was some concern that a large part of the funding – particularly under Priorities 1 and 2 – could go disproportionately to the Central Belt. Again, getting the balance right between urban and rural areas was an important issue.

Delegates pointed to the fact that this was likely to be the last major Structural Funds programmes for Scotland. Moreover, given their seven-year duration, it was important to have a high degree of flexibility so as to allow for changing priorities during their lifetime. Mindful of this, suggestions were made about whether there should be a time limit for individual awards.

Specific comments were also made about the following priorities in the different programmes.

Priorities 1 and 2 (Highlands & Islands) and Priority 1 (Lowlands & Uplands)

Overall, delegates recognised the importance of this priority, but commented on how it would be interpreted in practical terms. Higher education representatives welcomed the focus in Priority 1 and were confident that more universities would submit bids and thus increase competition. There was wide support for improving links between higher education and SMEs, although many stakeholders could not see how SMEs could be encouraged and enabled to exploit academic research more effectively. Innovative ways of engaging SMEs should be a priority area for funding as well as how could graduates be encouraged to join suitable SMEs. How this priority fitted with the Fresh Talent initiative was a related question.

The relationship between commercialisation of R&D and support for the R&D base came out as another issue for consideration. Many agreed that commercialisation of research through revenue projects should have more importance than support of R&D infrastructure through capital projects. Structural Funds should act as enabling funds and encourage developer funding. Another important issue was how this priority would link in with other R&D programmes such as the EU 7th Framework Programme so that some synergy effects could be achieved. Delegates also called for more focus and an encompassing definition of innovation.

Priority 3 (Highlands & Islands) and Priority 2 (Lowlands & Uplands)

While acknowledging the significance of this priority, key questions were raised about implementation of this Priority:

- Where would funding go in terms of new spatial targeting?
- How good are current measures of deprivation for determining that targeting?
- What kind of projects should be supported?

Delegates agreed that this priority offered many opportunities for ERDF/ESF joint work. Beyond that, there should also be stronger links with other funders, such as the Big Lottery. Such coordination would help Structural Funds empower people living in disadvantaged communities – in this context, Community Planning Partnerships could be important players. Awareness raising and capacity building were suggested as important activities that could be funded in future. However, questions remained over how spending in areas of need could contribute substantially to improving the performance of the Scottish economy.

Priority 3 (Lowlands & Uplands)

Priority 3 attracted more comment than the other two priorities in the Lowlands & Uplands programme. While there was recognition of the value of a priority addressing rural issues, some delegates saw it as disjointed with limited coherence between the objectives. Some also questioned whether it exclusively targeted rural areas with respect to its environmental objectives. When asked about which aspects should be removed, there was no agreement. Participants agreed, however, that other sustainability issues such as waste management and recycling should be part of this priority. The Biodiversity Strategy and the National Tourism Strategy were cited as additional parent strategies.

A few issues surrounding rural areas stood out: Was there an adequate definition of “rural”? How could rural innovation be defined and identified? Some argued the current definitions of innovation and disadvantage contained an inbuilt bias against rural areas. Other comments included the need to address property market failure and the need for focus on local supply chains.

Delivering the new programmes

Under conditions of reduced funding and with a view to continual improvement of the impact the funds secure, the Scottish Executive wants to explore alternative funding mechanisms. The discussions during the afternoon sessions at the stakeholder events focused on a series of potential design elements selected by Hall Aitken and how they could apply to Scotland. Discussion was structured around the issues raised in the Hall Aitken paper as part of the research into how Structural Funds were delivered elsewhere in the EU. The different workshops voted on these issues and discussed those that were felt to be the most important priorities. The full report and the discussion paper setting out the issues in more detail are available on the Scottish Executive's website at: www.scotland.gsi.gov.uk/structuralfunds.

Background issues

At all four events, delegates broadly recognised the pressures for changing how delivery should be undertaken. Discussion focused on how the existing system could adapt to a new environment of reduced funding levels. In moving to a new system, delegates said it was important to take full account of the lead-in time and costs of any significant changes, especially with the transitional period involving the start of new programmes and the closure of existing programmes. Consequently, retaining valuable expertise in the process was highlighted as an important issue to address in the transition. Overall, there was widespread agreement that there was a strong need to simplify processes and reduce bureaucracy where possible.

Building on good practice from previous Structural Funds programmes and learning lessons from EQUAL and LEADER+ – particularly in terms of partnership, strategic fit and exchange of knowledge – were felt to be important factors for the success and effectiveness of the new delivery system. In addition, within the context of the overall reduction in the Funds, the new system should provide reasonable access to funding for partners.

One future delivery issue discussed in the Hall Aitken paper was the principle of single-stream funding. Delegates drew attention to a number of uncertainties surrounding its implementation. It was important that Co-financing Organisations (CFOs) had the capacity and ability to set up new structures within a relatively short time and for the duration of what might be the last programming period in Scotland.

Comments on design principles

Through research into different models of managing EU funds and consultations with Scottish stakeholders, a number of design principles were identified (as presented in the Hall Aitken discussion paper for the stakeholder events). Delegates commented on these and discussed their importance for a future Scottish delivery system. The order of the issues below follows the order in the discussion paper and does not reflect the relative priority delegates gave them in their voting.

Achieving strategic fit

Strategic fit referred to the overarching coordination of EU and Scottish policy objectives through Structural Funds. Since the last Structural Funds programmes had been produced the strategic landscape in Scotland had changed dramatically. It was therefore important that Structural Funds delivery supported the key strategies in the priority areas. Commission representatives reminded delegates that EU strategies should be the primary documents in the first instance, but following on from these, national strategies would need to be regarded and prioritised at local level. Stakeholders also wanted to see funds aligned with other cross-cutting/horizontal strategic issues such as equal opportunities and sustainable development.

Should the new system of delivery include an element of co-financing, the selection of CFOs was seen as crucial for achieving strategic fit. Delegates pointed out that some potential CFOs were already heavily involved as partners and match-funders of Structural Funds projects.

Building in tactical fit

Tactical fit referred to the link between EU and domestically funded policy actions. Participants generally agreed that there was scope for enhancing tactical fit. Community Planning Partnerships were seen as players at local level in this context, with the Scottish Executive having a co-ordinating role. To increase the benefits of bringing together EU money with domestic funding, it was important to have a strong regional link, for example, by taking account of any regional economic strategies or potentially through a role for regional management committees.

In a co-financing context, delegates raised concerns that CFOs might use EU funding to merely extend their existing activities. It was critical that future Structural Funds did not become substitute funding but concentrated on added value. Indeed, the question was also raised if too neat a tactical fit could lead to highly limited additionality.

The place of competitive bidding

Competitive bidding and peer appraisal underpinned the current challenge-fund approach to selecting Structural Funds projects. There was general agreement that competitive bidding could help to drive up the quality of applications, but less agreement that this in itself produced quality projects. A view supported by many delegates was that a good quality regime could include performance related payments and a pre-qualification process. The focus of project selection should include evaluation of applicants' past performance, although there were questions over what constituted a suitable proxy for good performance.

The potential role of commissioning

Certain delegates argued for the need to consider another option for delivering future Structural Funds in the use of direct commissioning of key strategic projects. Views on the potential role of commissioning varied. Some argued that commissioning stifled innovation, others that it could work well. Delegates agreed, though, that the principle of commissioning was appropriate for some aspects of Structural Funds, for example where a fast response to local issues was required. The commissioning approach tended to be seen as more proactive. As with competitive bidding, good specifications were crucial for high quality of delivery.

Valuing innovative approaches

It was argued that current Structural Funds placed a strong premium on encouraging innovative projects, which delegates felt should be continued into the future. However, the key question they raised was how to define "innovation". They found the term rather abstract and pointed out that innovation meant something different to different people and in different contexts, and thus was a matter of perspective. Some argued that quality and best practice were more important than innovation. In any case it was important that activities had the potential for mainstreaming. There was the suggestion that some funding should be put aside to support innovative approaches. In a co-financing context – questions were also raised about whether CFOs would adequately support innovation.

The role of partnership

Partnership was voted as the issue of most interest at all four events. The key message here was to value what works and keep the best elements of a well-developed partnership approach in Scotland. Advantages delegates attributed to this approach were:

- higher transparency of the delivery system;
- easier access for NGOs;
- better alignment with regional and local strategies; and
- better sharing of risks.

However, many stakeholders saw the new programming period as an opportunity to re-think the approach to partnerships. An important question was at what level partnerships should be involved in Structural Funds delivery – should the focus be on high-level strategic partnerships or would a bottom-up approach be better? Should the delivery system build on existing partnerships in domestic policy? Also, who would be the partners for Lowlands & Uplands, considering the diversity of the region? Highlands & Islands representatives emphasised their "unique, long standing relationships" in a coherent area.

Community Planning Partnerships were generally seen as important in this context but views were divided on what role they should play, particularly as there were many of them and all could not be supported with reduced funds. Geographical concentration would need to be considered.

Cocktail funding

Many Structural Funds projects were funded by a mixture of different funding sources, often referred to as “cocktail funding”, an approach that differed from a single-stream funding approach. This issue appeared to be furthest down on delegates’ lists of priorities and was therefore the least discussed. Where it did get mentioned, though, there was agreement that there will still be a place for this way of assembling funding. The bureaucracy involved in pulling together money from a variety of sources was seen as a burden organisations would like to avoid.

Next steps

The stakeholder events were crucial in advancing the development of future programmes. With their completion, the Scottish Executive will now reflect on stakeholder views and develop the new Operational Programmes and delivery mechanisms in light of the views expressed. A public consultation on the new Structural Funds documents is anticipated to start during the Spring with a view to the programme documents being submitted to the European Commission for negotiation in the summer. The intention is to complete these negotiations in time for the new programmes to start on 1 January 2007.