

SCOTTISH EXECUTIVE RESPONSE TO THE EUROPEAN AND EXTERNAL RELATIONS COMMITTEE'S REPORT ON AN INQUIRY INTO THE SCOTTISH EXECUTIVE'S PLANS FOR FUTURE STRUCTURAL FUNDS PROGRAMMES 2007-13

1. The Scottish Executive welcomes the Committee's report. It comes at an opportune time in the development of future Structural Funds programmes and delivery arrangements. In planning for the 2007-13 period, the Executive has been mindful that future programmes must not only build on the strengths of Scotland's Structural Funds experience, but ensure that what may be the last significant funding for Scotland adds demonstrable strategic value to our existing domestic policies. As the Executive prepares for public consultation on the Operational Programmes and delivery proposals – currently scheduled to begin in September/October – the Committee's report will make important contributions to the continuing discussions on future programming. In addition, over the consultation period, Ministers will continue to meet with partner organisations on a bilateral basis to ensure all views are taken into account in the development of new programmes.

In the sections that follow, the Committee's comments and recommendations are quoted from the Summary and Recommendations section of its report and presented in bold. The Executive's responses follow.

2. **In paragraph 64 of the report, the Committee recommends that the Scottish Executive should closely examine other EU funding options and opportunities available to Scotland, such as the Seventh Framework Programme 2007-13, Globalisation Adjustment Fund and European Solidarity Fund, which could benefit Scotland.**
3. The Committee rightly notes that Structural Funds should not be considered in isolation in developing future programming. Officials across the Executive are jointly considering the options for Scotland in these different funding streams and their complementarity and coordination will be discussed in detail in the Structural Funds Operational Programmes.
4. The Committee also notes the potential new opportunities for Scotland in the European Solidarity Fund and the newly-established Globalisation Adjustment Fund. The detail on the operation and eligibility criteria of these Funds have not been fully presented by the Commission – particularly with respect to the Globalisation Adjustment Fund – but the Executive will monitor their development closely and consider their use as appropriate.
5. **In paragraph 65, the Committee reiterates the conclusions and recommendations of the 'Possible Cooperation between Scotland and Ireland' report, which was led by Dennis Canavan MSP, which relate to accessing cross-border Territorial Cooperation funds.**
6. The Executive welcomes the report by Mr Canavan and is responding to its conclusions and recommendations separately to, but in parallel with, this response.

7. **In paragraph 67, the Committee recommends that the experience and expertise that exists in Scotland be utilised effectively in the future.**
8. The delivery arrangements for Structural Funds in Scotland have constantly evolved over the past few decades. In preparing for future programming, while recognising the need to adapt to changing circumstances, it is essential that the existing experience and expertise in developing and implementing Structural Funds programmes are used appropriately. For example, in tendering for future delivery bodies, the successors to the current Programme Management Executives (PMEs), the ability of the tendering organisations to demonstrate relevant experience will be a critical criteria in contract award. These new bodies will have the same set of responsibilities for financial control and project support that the current PMEs have at present, minimising the potential for disruption in modifying the delivery system. There will also be a continuing role for partners in contributing to programme implementation at different levels, especially through their representation on Programme Monitoring Committees and their participation in the project selection and advisory arrangements that are developed in future.
9. The existing experience and expertise of Structural Funds partners, managers and staff have already contributed to shaping programme development through: the 4 stakeholder engagement events held across Scotland last December and January; the work of the Value Added Group, which comprised of senior representatives of the 5 PMEs and reported on good project practice; specialist workshops on equal opportunities and environmental sustainability issues, drawing together experts from across Scotland in these policy fields; the Scottish European Structural Funds Forum; and lastly, through the formal process of Strategic Environmental Assessment of the emerging Operational Programmes. This engagement will widen with the forthcoming public consultation on the draft programme documents and delivery proposals.
10. **In paragraph 70, the Committee recommends that, as a matter of urgency, the Scottish Executive put appropriate transitional planning in place that both meets the requirements stipulated by the European Commission and the needs of those planning and delivering projects in Scotland.**
11. The Executive recognises the importance of potential transitional funding for vulnerable projects which may be significantly affected by any delays to the approval of Operation Programmes in 2007. Arrangements for supporting selected projects addressing vulnerable client groups operated in 2000 to cover the transition from the previous to the current programming period. While it is clear that the approach taken last time cannot be replicated because of EU regulatory changes, the Executive is currently considering a range of options and will set out any arrangement to partners as soon as possible. As soon as they are agreed, the Executive will notify partners of the new arrangements.

12. **In paragraph 73, the Committee believes it is very important that the current (delivery) structures are able to operate until 2009.** Here, and at paragraph 24, the Committee report notes that the current PMEs will need to operate until into 2009 to fulfil their obligations in closure of the 2000-06 programmes. In fact, while it is true programme closure will not be completed until 2009, all the tasks required of the PMEs have to be fulfilled by the end of 2008. Thereafter, the remaining tasks under closure will be the direct responsibility of the Executive.
13. **In paragraph 72, the Committee recommends that every possible effort is made to enable new programmes to begin on time on 1 January 2007. Where this is not possible the Committee recommends that there are no financial or staff costs to projects as a result.**
14. The Executive is fully committed to working towards the new programmes starting on 1 January 2007. However, this timetable is dependent on a number of external factors. Scottish Operational Programmes cannot be negotiated with the European Commission until the final version of the UK National Strategic Reference Framework has been submitted by the Department of Trade and Industry – it is increasingly likely that this will not take place until the autumn. Similarly, the Scottish programmes cannot be finalised until the UK allocation of Competitiveness funding has been resolved, as discussed in paragraph 22 below. Lastly, there may be delays in negotiating the programmes with the Commission due to their limited resources in handling programmes coming from 25 Member States. Nevertheless, the Executive is taking all steps to ensure that any delays to the start of programmes are minimised.
15. As discussed in paragraph 10 above, the Executive is considering provisional arrangements for transitional funding for projects addressing vulnerable client groups that could be adversely affected by programme delay as a matter of urgency. However, with such substantial reductions in EU funding in Scotland and the need for the remaining funding to be targeted, it is clear that not all current projects can be funded in future. The Executive has been encouraging partners to prepare exit plans for existing projects where appropriate.
16. **In paragraph 73, the Committee recommends that the principle of additionality is upheld by the Executive at all times when planning and approving programmes.**
17. As emphasised in the report of the Value Added Group on future Structural Funds programming convened by the Executive, *Adding Value, Keeping Value*, the principle of added value must be central to the development of future programmes, not least in the context of declining funding. Future programmes will need to focus on strategic, legacy projects, where additionality will be one of the most important criteria for project selection. Regardless of whether the programmes are delivered through challenge-fund or any single-stream funding arrangements, additionality will be an explicit element in the funding agreements.
18. **In paragraph 74, the Committee recommends that the Scottish Executive make an assessment of the impact which a reduction of Competitiveness Objective funds available for infrastructure and tourism projects will have and to indicate whether it intends to re-prioritise other budgets as a result.**

19. Full assessments of the impact that funding reductions on different categories of projects and different policy areas are difficult to make in the absence of detailed information on the planned spending on such projects. In the current period, economic infrastructure and tourism projects are estimated to have accounted for approximately 31% and 14% respectively of total European Regional Development Fund spend in Lowlands & Uplands Scotland – projected over the whole 2000-06 period, this would come to average annual Structural Funds support of approximately £25 million for economic infrastructure and £11 million for tourism-related projects. While there may be some scope to support such projects in the future Competitiveness Objective programme, the ‘Lisbon earmarking’ restrictions and the need to concentrate funding make it unlikely that such support will be on the same relative scale.
20. The reductions in Structural Funds support in different policy areas will inform the next Spending Review, at which point Ministers will take decisions on Scottish Executive spending priorities. However, future Executive priorities in economic infrastructure and tourism policy have already been clearly set out in the Infrastructure Investment Plan, *Building A Better Scotland*, the National Planning Framework, the Regeneration Policy Statement and the new tourism strategy, *Scottish Tourism: The Next Decade – A Tourism Framework for Change*.
21. **In paragraph 75, the Committee recommends that the Scottish Executive continues to work very closely with the UK Government to ensure that Scotland receives the maximum amount of Structural Funds possible.**
22. The Executive remains committed to securing the maximum share of EU funding for Scotland. Negotiations with the UK Government are continuing on the allocation of Competitiveness Objective funding within the UK and there has been regular Ministerial and official liaison with the responsible Whitehall department, the Department of Trade and Industry (DTI). The DTI expects the issue of allocation to be resolved before the autumn.
23. **In paragraph 77, the Committee recommends that clearly identified outputs, both economic and social, should be established to measure the effectiveness of projects.**
24. Scotland has a strong tradition of Structural Funds monitoring and evaluation, which will form the basis for developing a framework for the future programmes. Work is already underway with independent consultants to develop appropriate indicators, targets, monitoring systems and evaluation strategies for 2007-13.
25. Key principles for the new system have started to emerge. First, the monitoring framework should be further simplified for the benefit of project sponsors and programme managers, with fewer, more effective indicators. This is especially important for the ‘softer’ outcomes associated with European Social Fund work-focused support for individuals outside of the labour market. Second, as the new EU regulations allow greater flexibility for us to determine the evaluation needs of the programme, the Executive aims to develop better targeted evaluation studies, determined by our own needs rather than regulatory requirements and timetables. Lastly, future monitoring and evaluation should not only cover project and programme performance, but also the effectiveness of the different delivery channels. This includes

annual operating agreements with any single-stream funding bodies and ongoing and a full mid-programme review process for the new delivery bodies.

26. **In paragraph 78, the Committee recommends that the two programmes that cover Lowlands and Uplands Scotland should include geographical targeting where necessary and appropriate.**
27. As the Executive set out in its written evidence to the Committee, one of the key principles for future programme development will be balancing the needs of different areas within the region, particularly for the proposal for a single ERDF programme for the Lowlands & Uplands Scotland region. Geographical targeting is being actively considered for both the ERDF and ESF programmes. To ensure such a balance, the priorities of the proposed programmes are being developed to reflect the distinctive needs of urban and rural areas. Urban deprivation and community regeneration would be tackled by Priority 2 of the ERDF programme (focusing on community regeneration) and Priority 1 of the ESF programme (sustained employment). Funding would be concentrated on those areas needing it most through the use of Community Planning Partnerships. To address the specific needs of rural areas in the region, Priority 3 of the ERDF programme would focus on supporting the sustainable economic development of rural areas throughout the region, particularly through support for key strategic development projects that will help to achieve the Lisbon agenda in a rural context. More detailed proposals on spatial targeting will be set out in the public consultation on the Operational Programmes.
28. **In paragraph 82, the Committee recommends that the Scottish Executive ensures that a comprehensive consultation has taken place and remains fully engaged with all stakeholders before any final decisions are taken.**
29. As set out in paragraph 8 above, there has been continuing engagement with partners over the development of proposals for future programming. As already noted, the Executive will hold a public consultation on the Operational Programmes and delivery arrangement proposals.
30. **In paragraph 84, the Committee recommends that where co-financing and single stream funding is used that the Executive seeks to ensure that no sector is excluded from the assessment process.**
31. In considering the selected application of single-stream funding in delivering Structural Funds, the Executive intends to use the approach only where its added value can be shown and where it will prove effective. Single-stream funding arrangements would be pilot-tested in the early part of the next programming period with closely-monitored annual operating agreements for delivery bodies such as Highlands & Islands Enterprise and Scottish Enterprise. It would also involve only a limited panel of Community Planning Partnerships at the start, so the new approach to delivering community regeneration and sustained employment EU funding can be pilot-tested.
32. The Executive believes that the single-stream funding approach should be limited for the present and only applied where it can demonstrate clear benefits on other delivery approaches. However, should the approach prove successful, if appropriate, consideration could be given to widening the number and diversity of single-stream

funding bodies, though this would need to be balanced with retention of the challenge-fund element in delivery to allow continuing access to funding for a wide array of partners. A full review of all delivery bodies would take place in 2009.

33. **In paragraph 85, the Committee recommends that the possibility of using Community Planning Partnerships and the enterprise network to deliver those funds appropriate to them is fully explored by the Scottish Executive.**
34. As the Committee is aware, the Executive has been actively exploring the possibility of using Community Planning Partnerships and the enterprise networks more directly in delivering elements of future programmes. More detailed proposals on these arrangements and other proposals will be set out for the forthcoming public consultation.

Scottish Executive
25 August 2006