

**ANNUAL SUMMARY DOCUMENT  
DRAFT**

**2002**



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## **SCOTTISH EUROPEAN STRUCTURAL FUNDS PROGRAMMES: ANNUAL SUMMARY DOCUMENT 2002**

**This Annual Summary Document (ASD) has been prepared for the European Commission to complement the 2002 AIRs and ARDs submitted in June 2003. The Scottish European Structural Funds Forum and the European Committee of the Scottish Parliament will also consider this report in line with the recommendations of the PME Review.**

### **PART 1 - INTRODUCTION**

The Annual Summary Document (ASD) summarises the key points from the Annual Review process for 2002 for each of the 5 European Structural Funds Programmes and the 4 Community Initiatives in the 2000-2006 Programme across Scotland. The 2002 ASD summarises Programme performance and implementation based on Annual Implementation Reports (AIRs). It also considers future progress based on Annual Review Documents (ARDs). The purpose of this ASD report is to conglomerate and highlight the outcomes for 2002 identifying common themes on performance of Programme objectives.

AIRs present factual reports on Programme performance, changes in Socio-economic and policy conditions, progress with Programme implementation, process lessons on projects applications, wider process reviews and co-ordination activities. It also covers a factual account of programme activity during the calendar year 2002.

The ARD considers, in light of the 2002 AIR, the progress made in achieving the Programme's strategic objectives outlining actions being taken to ensure continued progress during 2003. The ARD is an annual document, which is forward thinking, providing recommendations to key stakeholders on how to continually develop and improve each Programme.

#### **1.1 Scottish Socio-economic Summary**

The global economic slowdown, which began in the second half of 2001, continued to have a major impact on economic activity during 2002. The Scottish economy was sluggish throughout the year, with a continuing decline in manufacturing being offset by a slightly more resilient Service sector. Although growth and investment was weak, the labour market has remained buoyant, with unemployment staying well below historic trends.

The Scottish economy exhibited very little growth during the year to September 2002. According to Scottish Executive data, in the four quarters to September 2002 compared to the same quarters of 2001, Scottish GDP increased by 0.1%. This is significantly below the Scottish average annual growth rate of 2.1% recorded between 1963 and 2001. These figures for Scotland conceal a considerable range of performance among the broad industrial sectors. For example, in the services sector, GDP was 5% higher, construction output fell by 4.6% and manufacturing output fell by 12.7%.

## 1.2 Pan-Scotland Policy Developments

The 'Programme for Government II - Working together for Scotland'<sup>1</sup>, issued in January 2001 for the first time highlighted objectives for European Structural Funds implementation in Scotland stating; 'We will implement European Structural Funds programmes wisely to leave a lasting legacy. They are designed to provide additional support to economic development and job creation and to equip people with the skills required to compete in labour markets; a key change from previous programmes is the new emphasis on social justice, sustainable development and equal opportunities.' The initiatives and work undertaken in the course of 2002 reflects these aims and the document 'Recording Our Achievements'<sup>2</sup> published in December 2002 reported that progress towards this objective was ongoing. Other policy documents such as 'A Smart Successful Scotland'<sup>3</sup>, the Executive's strategy for enterprise networks, and 'Social Justice...a Scotland where Everyone Matters'<sup>4</sup> continue to have relevance for the implementation of the Structural Funds.

During 2002, new Scottish Executive policies were published on sustainable development, social justice, economic development, ICT and tourism. These influenced the policy environment for European Funds and provided a supportive framework for implementation of the Programme. In early 2003 Scottish Parliament elections resulted in re-election of the coalition in the Scottish Executive. Developments over the next four years will be guided by partnership agreement setting out expected policy initiatives.

## PART 2 – PROGRAMME ACHIEVEMENTS

### 2.1 Highlands & Islands Special Transitional Programme

#### *Progress 2002*

A further £17.5 million was awarded in 2002 bringing total Programme commitment to 55%. The total funding available in the Programme is approximately £200million.

Steady progress in respect of commitment was apparent this year moving from 47% at 2001 to 55% by the end of 2002. The "slow-down" was largely a consequence of a seriously undersubscribed single bidding round during the year (albeit supported by the fast-tracking arrangements). The bidding round generated project approvals of only £10.6m, including almost £6m under ESF. Given the concerns previously expressed by the Monitoring Committee in respect of the need to achieve levels of grant expenditure consistent with the annual financial targets, the Management Committee recommended a return to the twice yearly bidding cycle.

The Programme has made significant progress in terms of financial commitment, forecast targets and the development of generative projects. 2002 has been characterised by:

- A re-prioritisation of activities within the scope of existing measures;
- Steady progress on implementation;
- A re-focusing on compliance issues and in particular in respect of N+2; and

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<sup>1</sup> This report can be found at: <http://www.scotland.gov.uk/library3/government/pfg-05.asp>

<sup>2</sup> Document available at <http://www.scotland.gov.uk/library5/government/roam-00.asp>

<sup>3</sup> This can be found at: <http://www.scotland.gov.uk/library3/enterprise/sss-00.asp>

<sup>4</sup> This can be found at: <http://www.scotland.gov.uk/library2/doc07/simd-01.htm>

- Supporting work on the mid-term evaluation of the Programme.

The Programme has continued to invest in a variety of support schemes; business, community and transport infrastructure; training initiatives; primary sector investment; and community economic development. Demand is increasing under the business schemes, which had initially been slow to expend commitment. The impact of the Programme can already be seen through investments such as Vestas Renewable Energy Manufacturing Facility in Argyll which has strengthened its operation following its success in winning the majority of the contract to build Britain's biggest offshore wind farm. Demand has increased under agriculture and fisheries schemes especially under agricultural processing and marketing investments. Geographical analysis of awards made to date indicate that the Programme is still being heavily targeted at the most fragile areas within the Highlands and Islands with Argyll and Islands and Western Isles particularly receiving high levels of grant.

ERDF and ESF clearly met the targets set by the financial regulation (known as N+2). FIG did not have to meet targets in 2002. EAGGF performance is still under consideration. Good progress has been made towards meeting the Performance Reserve targets. Virement was approved by the Programme Monitoring Committee in May 2002 in respect of the ESF where €800,000 was transferred from Measure 3.4 (entrepreneurship) to 3.2 (social inclusion).

The mid-term evaluation work was awarded in 2002 to Alec Fraser Associates (in partnership with the European Policies Research Centre of the University of Strathclyde and the Rural Development Company). Work progressed in 2002 and the results of the evaluation will be reported in the 2003 AIR.

The implementation of European Structural funds in Scotland supports the four pillars of the EES and National Action Plan. Throughout 2002, the European Social Fund element of the Highlands and Islands Special Transitional Programme continued to add value to national programmes, working with the Employment Service and training organisations maximising the benefits of both ESF and New Deal. ESF continued to work alongside the Enterprise Network, encouraging and supporting business foundation as well as offering training and support to existing SME's.

#### ***Future Actions for 2003/4***

The PMC is generally content with the way the Programme is performing and sees no need to recommend any major change prior to the mid-term evaluation which will look closely at many of the issues outlined above.

Actions proposed for 2003/4 include:

- Reinforce strategic guidelines re-defining four key themes in the appraisal process: Generative; legacy; transition; sustainability.
- Re-focus on actions at measure level, within the existing scope including, for example:
  - Encouragement of business schemes and projects which support existing businesses;
  - Higher priority for R&D Schemes which clearly support commercialisation; and
  - Encouragement of renewable energy products, which enhance sustainable development objectives.
- Ensure effective financial management through the N+2 (2003) Action Plan.

## **2.2 Objective 2**

For the three Objective 2 Programmes, 2002 was their second operational year. Key challenges included:

- Accommodating the shift in emphasis from previous European funding investments
- Adapting to a number of changes in systems
- Absorbing the economic shocks outlined at Part 1.1

## **2.3 Objective 2 East**

### ***Progress in 2002***

The East of Scotland Objective 2 Programme had six application rounds and committed £70.27m, nearly 44% of all available funds by the end of 2002. Overall, this represents a reasonable level of commitment, although the performance is mixed across the different Programme measures, and spend has not kept pace with commitment.

Project applications were submitted under all of the Programme measures with the exception of Measures 1.2, Access to Risk Capital. As regards the lack of activity under Measure 1.2 considerable progress was made in the latter part of the year in developing the Scottish Co-Investment Fund (SCF). This new fund is aimed at promoting equity investments in syndication with private investors in new and early stage SMEs. It is hoped that ERDF contributions from the three Scottish Objective 2 Programmes will co-invest alongside Scottish Enterprise and the private investors.

Positive forecasts have already been generated, especially under Priorities 1 and 2 and some of these investments are now beginning to deliver actual results. However, the level of expenditure recorded to date in the Programme is lagging behind those financial targets set in the Single Programming Document (SPD) and this is an operational area which is being fully considered, with compliance arrangements being more forcefully implemented. It is also anticipated that the development of proposals linked to the promotion of loan and equity finance in Measure 1.2 will result in increased demand and expenditure in 2003.

Following the decision of the Monitoring Committee on 21 October 2002 to agree the virement of 3.3m EURO from Measure 2.2 transition to Measure 2.1 transition, a further revision was made to the SPD financial tables reflecting this change.

### ***Future Actions for 2003/2004***

Specific action will be taken to address those measures that are not performing well. For measures 1.2, 3.3, lack of activity in Food & Drink strategic sector and to a lesser extent measures 1.3 and 3.1, development work is underway by the PME in order to stimulate interest amongst partners.

The following actions in 2003/2004 are recommended to ensure effective implementation and performance of the East of Scotland Programme:

- Pro-active promotion of underperforming areas of Programme.
- Continue emphasising to applicants to claim regularly and frequently. Also new claim forms to be introduced, summer 2003, which will automatically have key data from the approved application and simplify the process.

- Development work on new monitoring methodology, which now combines standard physical monitoring with an assessment of mainstreaming the horizontal themes. This will provide valuable feedback to project sponsors.
- Seek increased priority status for action plan developed by local partnership and endorsed by the Scottish Executive. Provide advice and support regarding eligibility for ERDF support and coherence with Programme conversion strategy.
- Continue to deliver awareness raising and training workshops horizontal themes for all concerned.
- Promoting the Horizontal Themes of Sustainable Development and Equal Opportunities through training workshops and seeking to integrate these key policy areas across all supported activities. Embedding best practice both in project design and delivery are central to the strategic aim of the East of Scotland Programme.
- Improve the new project-monitoring system undertaken by PME staff to incorporate the mainstreaming of horizontal themes monitoring. This new monitoring system will provide a qualitative assessment through monitoring visits and more comprehensive feedback to project applicants. This new combined monitoring will commence in 2003.

## **2.4 Objective 2 South**

### ***Progress in 2002***

The South of Scotland Programme has a particular focus on rural problems and the Foot and Mouth disease crisis of 2001 continued to have a long-term negative impact. Despite this, total investment awards of £21.7 million were made in 5 rounds of applications up to 2002, representing 49% of the total Programme value of £44 million (€73m), with a number of projects still in development and expected to be realised during 2003. This is a significant level of commitment, which if converted to spend will ensure the Programme meets the targets of N+2 and the Performance Reserve.

A review of the anticipated outputs and results of approved projects was completed during 2002, and showed that programme performance targets for all but the venture capital measure (Measure 2.3- SME Access to Capital) are likely to be achieved or exceeded. The venture capital project is subject to ongoing discussion regarding demand and applicability in the South of Scotland, and this is expected to be resolved during 2003. Such resolution would ensure that the Programme was eligible to receive the full Performance Reserve allocation of 4%, or approximately £2M.

During 2002, the Programme continued to invest in a wide range of projects, including business advisory and financial investment schemes for SMEs, tourism marketing initiatives and business infrastructure developments. All approved projects continue to demonstrate a close fit with local, regional and national strategies and contribute to the achievement of programme performance indicators and targets.

Progress in the targeted area regeneration communities picked up pace during 2002 with some significant project applications arising as a result of local partnership working.

### ***Future Actions for 2003/4***

The South of Scotland Programme Monitoring Committee (PMC) has indicated that they are content with the progress of the Programme so far and there is therefore no requirement to make any significant changes.

Priority 3 of the Programme includes a Measure focused on a limited number of targeted communities most in need of economic development interventions. Each of these communities have now produced local area strategies, setting out the needs and aspirations of their residents and the role that Structural Funds can play in addressing the priorities identified. The process of engagement with communities necessarily takes time, and outputs and impacts from these measures are expected to build slowly, and to have long-term impact.

Recognising the progress made throughout the Programme, there is no requirement as a result of developments in 2001 or 2002 to consider any significant changes to the Programme. However, the results of the independent mid-term evaluations, including any recommendations, will be considered by the appropriate management mechanisms during 2003.

## **2.5 Objective 2 West**

### ***Progress 2002***

In 2002 three full rounds of applications in the West of Scotland were held, with a total of £62.2 million in European Funds awarded to 209 new economic development projects in the region.

After a slow start to the Programme in 2001, 2002 saw a considerable expansion of the scale and speed of implementation in the Western Scotland 2000-2006 Objective 2 Programme. Three full rounds of applications were held, with a total of £62.288m in European Funds awarded to 209 new economic development projects in the region.

Throughout the year the Programme worked on important issues for the region such as social inclusion, business growth and innovation, economic activity and skills, equality and sustainable development. The year ended with the results of an independent survey of partners being distributed, plans for the mid-term evaluation of the Programme well underway and progress being made on a large scale investment fund for SMEs in the region.

The main challenges during the year continued to be:

- The effects of the late start to the 2000-2006 Programme;
- The development of a revised online European Funds application process in Scotland (and associated funds management system development); and
- Slower than expected levels of spend, in particular in Measure 1.1 (Enhance access to finance for SMEs).

In summary, the Programme achieved a high level of commitment and involvement from the partnership in the region and supported a range of important and innovative projects. However, facing a number of practical challenges for implementation, the focus of activity in the latter half of 2002 (and the first half of 2003) has been the Scottish Executive, SEP Ltd and the partners working together to address N+2 issues for the Programme.

### ***Future Actions for 2003-2004***

The Scottish Executive, Strathclyde European Partnership (SEP) Ltd and the partners, especially in light of the N+2 Financial Regulation, are addressing the modest level of commitment in the Programme. In September 2002 an N+2 Action Plan was developed and an internal N+2 group supported its implementation. The Plan was approved and regularly reviewed by the PMC. The plan will continue to be implemented and updated during 2003 and its key elements are:

- Improving Programme expenditure performance
- Increasing the value of applications
- Participating in the Business Process Review
- Investigating Programme and process flexibility and other regions' approaches to N+2.
- Improving communication on N+2 issues.
- Promote increased flexibility and availability of co-finance in the region.

In addition, the Structural Funds Division of the Scottish Executive has been active in convening meetings between policy divisions of the executive and SEP Ltd. These meetings have identified a number of new opportunities to increase Structural Funds spending.

Overall, the mid-term evaluation will have important lessons for the Programme in terms of processes and as results emerge activity to adjust and change the Programme will be considered.

Work by the Scottish Executive at a pan Scotland level to streamline the application process should also support promotion of the Programme (see part 3).

Overall 2003 will be a watershed for the Programme. Taken together, the first N+2 deadline, the revised application and claims processes, the assessment of the performance reserve and the completion of the mid-term evaluation will create an important opportunity to adjust the Programme. This period of review and change will require considerable commitment and work.

## **2.6 Objective 3**

### ***Progress in 2002:***

2002 represented the third year of implementation of the 2000-2006 Objective 3 Programme and the second year in which Objective 3 projects were completed. A further £64 million was approved in 2002 making a total of £173 million in the three rounds of project applications so far. This represents 50% of the total Programme value of approximately £346 million (€499 million).

Take up of the programme priorities has been positive, with the programme funding projects, from across lowland Scotland, as diverse as helping women into IT, supporting the development of Enterprise in Castlemilk and creating routes back to work across lowland Scotland. Take up of the programme generally has been good although patchy, and whilst some Measures have been over-subscribed (e.g. 1.1, 2.1, 2.2, 2.4 and 4A.2.) others have experienced low levels of commitment (in particular 2.3 and some within priorities 3 & 5. Pro-active developmental work and closer co-ordination of funds with the Objective 2 Programmes have been put in place to aid implementation difficulties.

In February 2001 the PMC agreed the introduction of a “Rolling Programme” for under-subscribed Priorities 3 and 5 and Measure 2.3. The aim was to ensure maximum flexibility to encourage more applications and bids of higher quality. The Rolling Programme enables applicants to submit applications at any point in the year, and a continuous system of fast-tracked and streamlined appraisal is carried out. This system is considerably more flexible than the Mainstream Programme, is more attractive to applicants and has already been proven to encourage applicants to submit an increased number of higher quality bids.

In late 2001 an improvement in the underbid situation was already noticeable through a significant increase in the number and quality of bids being submitted. This progress continued during 2002.

A working group of the Management Committee has been meeting throughout 2002, and will continue to do so through 2003, to build on work already undertaken in the light of streamlining, improving the implementation of the Programme, and the appraisal process and framework.

During 2002, three major research projects were undertaken on evaluations: the 2001 Leavers Survey; the Cross Scotland Labour Market Information 2002, and the Mid-Term Evaluation.

### ***Future Actions for 2003/4***

In the light of the variable levels of take up of some priorities (and bearing in mind the policy framework in which the Programme is working) the PMC have recommended the following actions:

- Rolling Programme in the 4<sup>th</sup> round of awards to continue in Priorities 3 & 5, and Measures 2.3, 4A1, 4B1 and 4B2.
- The Programme incorporate the 20 recommendations made by the Mid-Term Evaluations, which are currently underway.
- Consider the independent research work and recommendations, commissioned in 2002, on Private Sector Involvement as beneficiaries, partners and match funders.

The Programme Monitoring Committee considered all recommendations made in the Ex-ante evaluation in September 2001. It is proposed that a further investigation of programme targets be undertaken as part of the Mid-Term Evaluation of the Programme during 2003. Any changes to these targets will affect the Operational Programme as a whole and will have to go through inter-service consultation within the Commission before changes can be confirmed.

In 2003 the full operation of the Management Information System (MIS) will be in place for accurate collection and dis-aggregation of data. The MIS will analyse the data included in application forms against that provided through claims allowing actual information, rather than forecasts, to be examined. This will allow Programme staff to more accurately assess the extent to which applicants are progressing towards agreed targets. It will also provide more complete data allowing the PMC to inform on future decisions on Programme activity and allocation of resources. Although work has begun in 2002 further details of this work will be outlined in the 2003 AIR.

## **2.7 Objective 2/3 Co-ordination**

### ***Progress in 2002***

Co-ordination between the Objective 2 and Objective 3 Programmes has improved during the course of 2002, and a joint approach to the promotion of ESF and ERDF will be developed during 2003.

Progress was made in 2002 to achieve greater complementarity and generate synergies between the two funds. This included:

- Co-ordination at the level of the Managing Authority, the Programme Monitoring Committee and the PMEs.
- Establishment of an Objective 2/3 Co-ordination Group to discuss specific and general issues relating to co-ordination, attended by each PME Director.
- Bi-lateral meetings between PMEs.

Objective 3 PME staff take an active interest in the drafts and in proposals submitted in advance of any formal applications, and towards the latter part of 2002 attended many of the formative local networking meetings in both the Borders and the Dumfries & Galloway areas.

Co-ordination between PMEs has improved at operational level during 2002 through events such as shared training, shared horizontal themes staff activities, and in sharing of data on performance and in networking opportunities, as well as in planning of project development activities. The Scottish Executive Structural Funds Division is Managing Authority for the Objective 3 and Objective 2 Programmes in Scotland facilitating effective administrative co-ordination.

During 2002 the Objective 3 Programme and the three Objective 2 Programmes (West of Scotland, East of Scotland, as well as the South of Scotland) continued to build on work undertaken in 2001 to ensure that Programme implementation and project selection arrangements encouraged co-ordination and complementarity whilst avoiding duplication.

In 2001 an Objective 2/3 Co-ordination Group (also known as Structural Funds Liaison Group - SFLG) was set up to discuss specific and more general issues relating to co-ordination. The Group was convened by the Scottish Executive and was attended by each Programme Management Executive Director. This was continued throughout 2002 and into 2003.

### ***Future Actions for 2003/2004***

Advisory Groups assess applications for European Structural Funds and generally consist of key local stakeholders, PMEs and Programme Teams. Joint training events for Advisory Group members will take place in 2003 to heighten awareness of the overall aims and objectives of the Objective 2 Programmes, and fit with the Objective 3 Programme.

Mid-term evaluations for all Objective 2 and Objective 3 Programmes will consider the issue of how complementarity is being considered and make recommendations as necessary.

As with 2001, applications for Objective 3 ESF assistance from the South of Scotland during 2002 were relatively few in number, compared with urban areas in East and West Central

Scotland. A process of review and reanimation in working with Objective 3 staff has therefore started, and will be a specific consideration for the mid term review consultants.

## **2.8 Community Initiatives**

### ***Background & Progress to Date***

The following four Community Initiatives in which Scotland participates were approved in 2001:

**EQUAL** – A GB Programme, with separate Scottish implementation, was approved by the Commission in 2001. This Community Initiative is designed to help a range of target groups with a particular focus on equality issues associated with gender, disability, race or ethnic origin, religion or belief, age, and sexual orientation. Awards have been allocated to seven Scottish Development Partnerships, which commenced activity (alongside all European partners) in November 2001.

**INTERREG III** – Scotland is participating in 4 INTERREG IIIB Programmes for trans-national co-operation; Northern Periphery, North Sea, Atlantic Area and North West Europe. Interreg III is a test bed for innovative thinking on spatial planning that may feed into and inform National planning strategies. Office of the Deputy Prime Minister (OPDM) co-ordinates for the UK on all of these except the Northern Periphery programme, where Scotland takes the lead. Approval on these Programmes was reached in 2001 and early 2002, respectively.

- In January 2002, the Northern Periphery Programme approved its first projects with further rounds in June and December.
- The first round of applications for the INTERREG North Sea Programme allocated around €4 million (£2.4m) to UK partners. The second round of approvals took place in November 2002.
- The Atlantic Area and North West Europe Programmes approved projects from their first calls in the autumn of 2002.

**URBAN II** – Urban II aims to promote innovative strategies for sustainable economic, social and environmental regeneration. 2002 was the first operational year of Urban II Programme, which covers the multiply disadvantaged areas of Clyde Urban Waterfront, (Port Glasgow and Clydebank South). The Western Scotland Objective 2 Programme also covers both communities. Co-ordination and complementarity have been synchronised to ensure those individual partners and projects in the Clyde Urban Waterfront Regeneration Zone are guided to the most suitable Programme of funding

The URBAN II Programme is at early stages of implementation and at a time when a number of policy and system changes from previous European Funds support was being incorporated. It is therefore not surprising that low levels of financial commitment and performance outcomes were achieved during 2002. Overall significant progress was made, with considerable publicity and awareness raising activities undertaken and one round of applications was completed.

Actions for 2003 will focus on increased promotion of the URBAN II Programme, commitment to early project development support, and incremental and focused systems improvements. These activities will be accompanied by frequent monitoring of financial

commitment and performance outcomes at measure level and will be reported to the URBAN II PMC and Advisory Group.

In 2003 particular efforts will be made to stimulate activity in the measures that had received few or no applications. A number of systems and information technology improvements have also been implemented or are being developed for introduction during 2003. Also part of the mid-term evaluation will address any challenges faced by community organisations when applying for URBAN II grant and will make recommendations on how best to address them.

**LEADER + -** The Community Initiative Programme, which was designed to encourage new ideas and working alongside the Rural Development Plan for Scotland, was submitted in March 2001 and formally approved by the Commission in January 2002. 13 Local Action Groups were designated by Ministers to implement Leader+ at the local level and business plans were finalised by August 2002.

Due to the late approval of the programme there was very little project activity in 2002. Instead the groups focused on establishing their administrative and project appraisal processes. The majority of expenditure incurred in 2002 was for administration therefore there is no economic impact to report on yet.

Co-ordination and complementary working with the South of Scotland Objective 2 Programme is at early stages for working on Leader+ projects, but do include liaison plans for sharing data on approvals and for shared horizontal themes training.

The Mid-Term Evaluation report will be submitted to the Commission by end 2003. Owing to the late start of the programme the Commission will require an update to the Mid-Term evaluation by the end of 2005.

## **PART 3 – SCOTTISH EXECUTIVE PROGRESS & FORWARD PLAN**

### **3.1 Streamlining**

The Scottish Executive continued to address streamlining in 2002 in line with the recommendations of the PME review. A dedicated project team, appointed in January 2001, managed a project to implement streamlining of the business process agreed last year and the related development of IT systems. The Scottish Executive and PMEs have:

- Commissioned new, mainly web-enabled forms, based on the designs agreed in 2001, for all new project applications and their subsequent claims.
- Continued to rationalise and revise the functional guidance in line with the re-designed forms.
- Developed claim forms based on ‘turnaround’ project data from the central database, to improve data accuracy and ease of completion.
- Implemented new IT systems to support the web-based forms.
- Progressed the development and rigorous testing of the new application forms, ready for implementation during the first quarter of 2003.
- Achieved on line access to the central database at the Executive by the PMEs in 2002.

The above developments will:

- Lessen the administrative burden on the Scottish Executive, the PMEs, the partners and the applicants; in a manner consistent with the regulatory requirements.
- Allow the PMEs and the Scottish Executive to access the same information, reducing duplication of effort and enhancing efficiency of the business process.
- Substantially improve the situation as regards late payments and the high level of invalid claims submitted via the previous system.
- Increase the quality and number of applications coming forward as, amongst other factors, the PMEs will be able to dedicate more time to awareness raising activity.

The result of the Business Process Review will continue to be implemented during 2003. The new application process became available from March 2003, with its implementation phased in according to the timetables of the application rounds for each Programme. The web-based claims process for these new applications was implemented in June 2003.

Future scheduled phases of the project will complete the essential enhancements to the central systems' functionality and components by the end of 2003.

### **3.2 Publicity**

The Scottish Executive website was relaunched in 2002 to enhance the promotion of the Programmes and thereby help increase the value and quality of project applications coming forward. Additional features of the site are:

- More user friendly, basic information on the Funds, presented in a narrative style.
- Links to PME sites.
- An application process flow chart with links to application deadline dates, application forms and Programme specific guidance.
- Specific pages on Sustainable Development and Equal Opportunities and good practice guides to download.

The internal Scottish Executive Intranet site will also be relaunched in 2003 to raise awareness and increase synergy with other Scottish Executive policy divisions.

### **3.3 Horizontal Themes**

Considerable progress was made in implementing the Horizontal themes of Sustainable Development, Equal Opportunities, Lifelong Learning, Information Society and Support for Local Initiatives across the Programmes in 2002. The national Sustainable Development co-ordinator (financed by the Scottish Environment Protection Agency and Scottish Natural Heritage) and the Equal Opportunities advisor (funded by technical assistance from all five Programmes in Scotland and Equal Opportunities Division) continued their full-time work across the Programmes.

In 2002, each of these advisors carried out an assessment of 100 projects, from application through to final claim stage, to assess their progress towards implementation of the Horizontal Themes. This opportunity was also used to identify examples of good practice, which were made available to all applicants. This resource will continue to be made available and built upon during 2003.

The Equal Opportunities Forum met three times in 2002. The Forum members considered a wide range of issues including accessibility of forms; common issues and obstacles; mid term evaluations and lessons from EQUAL. The Forum also made links with the Equal Opportunities committee of the Scottish Parliament.

The Equal Opportunities Adviser has added substantial focus to the mainstreaming of equal opportunities. She has instigated a programme of training for Programme Management Executive staff and Advisory Group members; identified good practice for wider dissemination; examined monitoring systems within Programme Management Executives; provided input into the mid term evaluations; and considered how to raise the profile of positive action projects.

The Sustainable Development Forum continued to meet in 2002 and focused on the following issues:

- Pooling knowledge and experience of Sustainable Development, promoting good practice, providing guidance and support where necessary and increasing understanding of Sustainable Development between Programme Management Executives;
- Monitoring the progress of the five Scottish Programme management Executives in the mainstreaming of Sustainable Development into training and project applications;
- Co-ordination of the assessment of the sustainable development theme within the context of mid-term evaluations of Scotland's European programmes. This has included the sustainable development co-ordinator drafting the sustainable development annex for the MTE Core Terms of Reference and participation in the five MTE steering groups.
- Forging links with other bodies involved in the promotion and development of the Horizontal Themes.
- Follow up action to the Nordrhein Westfalen Project, which is comparing implementation of the horizontal themes e.g. equal opportunities in some Structural Fund Programmes in Scotland and Germany.

### ***Future Actions for 2002/2003***

The PME's plan to hold further workshops, one to one advice and use best practice models in 2003 to promote the horizontal themes with partners, applicants and advisory groups. Attempts to elicit buy-in and ownership of the horizontal themes are being pursued by publicising good practice guides on the Scottish Executive and PME websites. Combined with the workshops, this will help applicants understand the potential of their project to address specific aspects of the horizontal themes. HIPP and the Objective 2 PME's, in collaboration with Objective 3 will provide dedicated support to mainstreaming the horizontal themes both for ERDF and ESF project activity. Further actions include:

- Review of Sustainable Development Core criteria (used for scoring application forms) with a view to making Equal Opportunities more explicit.
- Improved guidance to be developed by the Executive and the PME's on the horizontal themes.

- Monitoring of targets set for the Programmes contained within the Mainstreaming Action Plans for Sustainable Development and Equal Opportunities.
- Mid term evaluations of all Programmes will consider how each Programme has incorporated the horizontal themes and the impact this has had on project implementation, with a view to sharing good practice across the Programmes.

The widely acclaimed Equal Opportunities toolkit is currently being revised; this exercise is expected to be completed by the spring of 2004. The toolkit serves as guidance for mainstreaming Horizontal Themes into structural funds. There has also been research conducted, by the dedicated advisers, into good practice in the fields of Equal Opportunities and Sustainable Development.

### **3.4 Private Sector**

#### ***Progress for 2002***

It is clear that Programmes need to build on current efforts to engage with private sector organisations, to ensure that efforts are made to maximise their participation. This might improve the benefits Structural Funds bring to the wider economy and, in the medium term, help to reduce dependence on Structural Fund support.

Significant efforts were made during 2002 by the Scottish Executive and the PMEs to encourage the private sector to get actively involved in European Funds. For example in Western Scotland Objective 2 Programme, 16 projects with significant private sector involvement were approved during 2002. These projects had a total value of £42.854m and are expected to lever in direct private sector contributions of £26.451m.

During January - March 2002 the Objective 3 PME undertook some research into private sector involvement in the programme to date. This research identified barriers to private sector involvement such as the length of time between application and approval and the competition with other European Structural Funds and non-ESF initiatives. Several opportunities to increase private sector involvement were identified such as better use of employer associations and existing employer networks. A presentation on these findings was delivered at the Objective 3 Best Practice Event in March.

In 2002, it was agreed to sponsor a pan-Scotland bid for ERDF from all 3 Objective 2 Programmes to set up a Scottish Investment Fund. This will stimulate further investment from the private sector in 2002/2003 (see section 2.2).

#### ***Future Actions for 2003/2004***

Programme Monitoring Committees include private sector representatives and they will be encouraged to consider how the private sector might be more fully involved in the Programmes.

The Head of ESF Division within the Executive and PME colleagues are due to meet with CBI (Scotland) to discuss how to further encourage involvement of the private sector.

### **3.5 Future of the Funds**

Scotland is actively involved in the debate on the future of Structural Funds. EU enlargement will take place in May 2004, increasing the size of the EU to 25 Member States. Current Structural Funds Programmes cease at the end of 2006 and debate is underway on the future shape of European Regional policy post enlargement.

### ***Progress in 2002***

The Commission published its first Progress Report on the Second Cohesion Report in January 2002. Structural Funds Division continued its work on the future of the Funds and has liaised closely with Whitehall and other Devolved Administrations as the debate has progressed. The future of the Funds was discussed at both the 2002 meetings of the Scottish European Structural Funds Forum. The Division also organised a meeting with SE divisions, whose policies are supported by the funds, to raise awareness of the inevitable reduction in Structural Fund receipts in the future.

In February 2002, the European Committee of the Scottish Parliament started an inquiry into the “future direction of Europe’s cohesion policy and structural funds”. Its report, which called for the retention of Structural Funds for Scotland, was published in July 2002.

In May 2002, Euromontana hosted a conference on mountainous regions. Commissioner Barnier spoke at the Conference alongside Peter Peacock; they both also attended a meeting of MEPs in Inverness. The Commission then organised a seminar on the geographical priorities for the Funds in future, based on the priorities highlighted in the Second Cohesion Report. Representatives from the ESF Division attended this seminar. The Commission also held the Cities for Cohesion conference in July 2002 and a Mountain conference in October; the Division was represented at both.

At UK level, the Division participated in the Steering Group of a DTI-led study on the added value of the Structural Funds. The mid-term evaluations of all Programmes have considered the added value of Structural Funds compared to domestic regional policy and this is feeding into the consultants ECOTEC’s findings.

### ***Future Actions for 2003/2004***

The Commission published a second Progress Report on the Second Cohesion Report in January 2003. The UK had launched a consultation on ‘A Modern Regional Policy for the UK’ with Ministers with a closing date of July.

The future of the Funds was discussed at XXXX two meetings of the Scottish European Structural Funds Forum in 2003. In February, the Forum agreed that, following on, the Scottish Executive should set up a working group to consider the UK proposals and prepare a draft response for the Forum to consider. The response was endorsed by the Forum at its meeting in June 2003 and Lewis McDonald sent it to UK government.

A new European and External Relations Committee was appointed following the May 2003 Scottish Parliament election and it plans a limited call for views on Structural Funds post-2006.

ESF Division will continue to participate actively in the future of regional policy debate and will carry on working with Whitehall colleagues, as well as partners across Scotland, to

develop the eventual UK negotiating position and its proposed draft EU Framework for Devolved Regional Policy. Following the publication of the 3<sup>rd</sup> Cohesion Report, expected in December 2003, the Scottish Executive will work with partners to analyse the Report's implications for future funding.

### **3.6 Synergy with Domestic Policy**

#### ***Progress for 2002***

The Scottish Parliament continued to take an active interest in the implementation of Structural Funds in Scotland. On 24 January 2002 the Parliament passed a motion laid down by the Scottish Executive which 'recognised the success of the Executive's strategic approach and decentralised administration in managing European Structural Funds and underpinning its commitment to key policies; in particular education, jobs and transport, and endorses the continuation of this approach to ensure a sustainable impact from this funding.'

The European Committee continued its important role in scrutinising the administration, management and delivery of the European Structural Funds. In July 2002 it published a 'Report on the Inquiry into the Future of Cohesion Policy and Structural Funds Post 2006'<sup>5</sup> and in March 2003 published a report "Europe's Employment Strategy and Corporate Social Responsibility: An Inquiry into the Scottish Model"<sup>6</sup>.

In 2002, the Scottish Executive continued to address integration with all local, regional and national policies and priorities in order to promote coherence and make implementation sustainable when the funds inevitably decrease. European Structural Funds Division therefore continued its efforts through 2002 to address Scottish Executive priorities more specifically.

Throughout the year 2002, wider Scottish Executive policy initiatives on sustainability, social justice, economic development, ICT and tourism had an influence on the policy environment for Structural Funds Programmes in Scotland. The following documents provided a framework for the overall policy agenda:

- *Better communities in Scotland: Closing the gap*<sup>7</sup> (June 2002): The SE's Community Regeneration Statement.
- *Scotland's Economic Future*<sup>8</sup> (February 2002): Strategy for Economic Development.
- *Meeting the Needs...Priorities, Actions and Targets for sustainable development in Scotland*<sup>9</sup> (April 2002): The Scottish Executive's statement on Sustainable Development (4/2).
- *Connecting Scotland our broadband future: Making it Happen*<sup>10</sup> (December 2002): Update to the Executives Broadband Strategy (12/2).

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<sup>5</sup> The report can be found at: [http://www.scottish.parliament.uk/official\\_report/cttee/europe-02/eur02-03-01.htm](http://www.scottish.parliament.uk/official_report/cttee/europe-02/eur02-03-01.htm)

<sup>6</sup> The report can be found at: [http://www.scottish.parliament.uk/S1/official\\_report/cttee/europe-03/eur03-02-01.htm](http://www.scottish.parliament.uk/S1/official_report/cttee/europe-03/eur03-02-01.htm)

<sup>7</sup> Document available at <http://www.scotland.gov.uk/library5/social/bcis-00.asp>

<sup>8</sup> Document available at <http://www.scotland.gov.uk/library3/economics/sef-00.asp>

<sup>9</sup> Document available at <http://www.scotland.gov.uk/library5/rural/mtnsd-00.asp>

- *Tourism Framework For Action 2002:2005*<sup>11</sup> (March 2002): Scottish Executive policy on Tourism within Scotland.

### ***Future Actions for 2003/2004***

European Structural Funds Division became part of the Enterprise, Transport and Life Long Learning Department during 2003 with a view to achieving further synergies with domestic policy.

The Scottish Executive will:

- Continue to convene bi-lateral meetings with other Scottish Executive policy divisions on cross cutting issues (see part 3.5 on meeting with SE policy divisions on the Future of the Funds for example).
- Heighten awareness of European Funds within the Scottish Executive and externally to promote the current Programmes and help identify and illustrate gaps, which may exist in the future when the funds decrease.
- Monitor the development of Local Economic Fora and links to the community planning process to continue to place Structural Fund programme activity increasingly within the context of area based strategies.
- Promote a revised media strategy in 2003/2004, which will seek to integrate key Structural Fund announcements with other Scottish Executive policy areas and/or announcements.

## **3.7 Training**

### ***Progress in 2002***

The Report of the Steering Committee of the Review of the Programme Management Executives (March 2000) recommended there should be common training systems for the delivery of the new Programmes in the key areas of financial accountability and compliance and monitoring and evaluation, as well as in the horizontal themes of equal opportunities and sustainable development. Key developments in 2002 included:

- The Scottish Executive Training and Development Strategy developed in 2001 has been updated and is in full operation. This holistic strategy outlines training and development for the Scottish Executive, the PMEs and the partners, thereby enhancing coherence and consistency in advice and procedures.
- The Scottish Executive also organised in 2001/2002 successful joint training events for Scottish Executive and PME staff on the compliance issues of state aids and public procurement. Training in the horizontal themes was also addressed as outlined in the horizontal themes section.
- An Away Day was held in June 2002 for PME Directors and ESF Division Senior Management. This event considered the priorities and issues for the future, particularly the role of the PMEs, the Boards and the Scottish Executive. Mapping priorities and future work plan was also a focus of the awayday. Actions which emerged from this event included:

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<sup>10</sup> Document available at <http://www.scotland.gov.uk/library5/lifelong/csf-00.asp>

<sup>11</sup> Document available at <http://www.scotland.gov.uk/library3/tourism/tfar-00.asp>

- Increasing the visibility of the funds, both in terms of increasing spend and to ensure complementarity with other policy areas, which is especially relevant in terms of decreasing receipts post 2006.
- Developing a more effective publicity strategy which complements the timing of key Scottish Executive policy announcements. This is an ongoing process that has been discussed and agreed between SE ESF Division, SE Ministers and SE (FCSD) Press Office.

At the pan Scotland level, an information day was held for Programme Monitoring Committee members in the autumn of 2002. This day enhanced Objective 2/3 co-ordination and was useful in pursuing common training activities for the delivery of new Programmes as well as horizontal themes of Equal Opportunities and Sustainable Development. Joint training events for Advisory Group members occurred during 2002/2003.

#### ***Future Actions for 2003/2004***

An Away Day is scheduled for December 2003 for PME Directors and ESF Division staff. This event will promote cohesion between the two organisations, update BPR training and consider current developments.

In 2003/2004 information days have been planned on how to ensure compliance with N+2 rules and the Business Process Review (BPR). The training on BPR will concentrate on how to complete the new electronic application and claim forms. These information days enhance the N+2 Action Plan that was developed in 2002 and discussed earlier in this report.

#### **PART 4 - CONCLUSION**

The five Structural Fund Programmes and four Community Initiatives, although having initial difficulties, all reached good levels of commitment and progress towards their objectives in 2002. Where problems have been identified clear actions are underway to address them.

Actions for 2003/2004 such as training for Programme Monitoring Committee members, awareness raising activity both by the PMEs and the Scottish Executive and further streamlining developments, will ensure that the long term objectives of the Programmes will bear fruit and deliver sustainable benefits for Scotland.

**SCOTTISH EXECUTIVE**  
**European Structural Funds Division**  
**June 2003**