

5 January 2007

Emeric Heydel
European Structural Funds Division
1F Meridian Court
5 Cadogan Street
Glasgow
G2 6AT

Dear Mr Heydel

**South of Scotland European Partnership Programme
Members of the Programme Management Committee**

**Response to Scottish Executive's Consultation on the Lowlands and
Uplands Scotland European Regional Development and European Social
Fund Programmes 2007 – 2013.**

The South of Scotland Objective 2 Programme is implemented by a partnership of the European Commission, the Scottish Executive, national, regional and local authorities and other economic and social partners. It is administered by the South of Scotland European Partnership Programme Management Executive (PME) which has offices in Dumfries and Selkirk.

The Committee has considerable experience of implementing an EU Structural fund programme in a rural part of the LUPS area. At a meeting convened prior to consideration of its formal business on 4 December 2006, members other than the Convenor, who is a senior civil servant, discussed the Scottish Executive consultation invitation and agreed to respond. They agreed to the drafting of a submission on their behalf, which follows in the attached consultation proforma.

Yours sincerely

Donald MacKinnon
Programme Director

CONSULTATION QUESTIONS AND RESPONSE

Question 1: Are there any additional socio-economic factors to be considered - and which Structural Funds can address - in assessing the strengths, weaknesses and opportunities of Lowlands and Uplands Scotland?

Members particularly welcome the analysis of Rural Areas provided in ERDF Para 2.4. This is a key concern to the South of Scotland and its recognition provides for the distinctive economic and demographic features of rural areas. Members are pleased to note that population density is considered as an indicator of rural sustainability. This is a critical issue for the South of Scotland which has the lowest population density (23 persons per km²) in the LUPS area.

However much of the socio-economic analysis is at NUTS 2 level, which masks many of the specifically rural challenges by conflating rural statistics with those from the major conurbations of Edinburgh and Glasgow. In the course of the current Objective 2 programme the South of Scotland European Partnership (SOSEP) has developed a clear analysis of the problems specific to the rural areas in the south of Scotland. It is important that these are adequately reported in the LUPS programme document in order that the legacy of this programme is addressed into the future one and also that the challenges identified are converted into opportunities in the ERDF Priority 3 Rural Development element.

The Gross Value Added (GVA) figures are deceptive because they are subsumed with GVAs of the urban centres such as Edinburgh and Glasgow. The true figures for the South of Scotland (e.g. £10,500 GVA per head in 2003) are in the order of 28% below the average for Scotland as a whole. The LUPS programme for Competitiveness should recognise this disparity and support steps such as outlined in the South of Scotland Competitiveness Strategy to bring the rural areas more into line with national levels.

The SOSEP Single Programme Document identified 'roadblocks' that impede the ability of the economy of the South of Scotland to overcome its inherent structural weaknesses. The partnership has reviewed progress against these targets and identified where the current programme has made a difference so far and also where further progress is required. It will be particularly important for the new Programme to acknowledge that socio-economic factors and constraints on economic development are not always consistent across the whole of the LUPS area and that there should be capability within the Programme to allow differing roadblocks to be successfully overcome. For example the Socio-Economic Background section of the consultative draft suggests that 'it is not clear to what extent finance exists as a clearly defined market failure'. On the other hand, market failure to provide finance to SME's in rural areas has been defined as a specific key issue in the South of Scotland. A summary of relevant information is published in the Report to the Programme Monitoring Committee 29 Sept 06, 'Report Back -Assessing the Impact of the Objective2 Programme in the South of Scotland'.

It is recommended that these results are incorporated into any development of targets and indicators for the LUPS programme in order to target limited resources on the areas of most need

Question 2: Do the proposed priorities for the 2007-2013 ERDF programme in Lowlands and Uplands Scotland address the strengths, weaknesses and opportunities of the region?

The three priorities have the ability to address the strengths, weaknesses and opportunities, assuming that funds are available deliver integrated economic development programmes across the priorities and that targeting funds will not preclude the smaller projects likely to be developed in the remoter areas. Targeting of resources should not create a 'two-speed' LUPS programme. Specifically Members consider that the small towns in the South of Scotland should be able to access some of the funds allocated to Priority two, this could assist delivery of an agreed integrated rural competitiveness strategy.

One of the major strengths of the South of Scotland is its natural environment and the goods and services this provides, particularly in terms of an attractive environment to live, work and visit; it supports many land based activities and offers potential for renewable energy. These strengths should be recognised in developing targets and indicators under all three priorities.

Question 3: Do the proposed priorities for the 2007-2013 ERDF programme in Lowlands and Uplands Scotland show appropriate coherence and concentration?

The priorities show coherence and concentration but members have the following comments;

Priority one ERDF should incorporate flexibility of approach to research and innovation and that secondary regional industrial sectors and processes for involving small and micro businesses should be included. A more *'a tailored approach to innovation at regional level is needed- not standard policies or targets'* was recommended by Commissioner Danuta Hüber's at the June 2006 conference on 'Innovating through EU Regional Policy'. This is consistent with DG Graham Meadows statement that *'innovation is not the exclusive property of one type of region..None of us need be left out'*. It needs to be recognised that rural areas such as the South of Scotland where the academic base of universities has still not developed significant research and innovation linked to local and national industries, there would be a need for significant investment and interventions. So it is important that rural areas can access funds under Priority 1. If funds are devoted to a few large scale metropolitan projects the opportunities to deliver smaller scale rural projects will diminish, restricting delivery of a cross-priority strategic approach and emphasising the problems of a two-speed Scotland.

Priority two ERDF requires a strong rural indicator to supplement the Scottish index of multiple deprivations to identify deprived rural communities.

Priority three ERDF The proposal for specific South of Scotland actions is welcomed. There needs to be flexibility in this programme to address the seven key priorities of the South of Scotland competitiveness strategy

Question 4: Do the proposed priorities for the 2007-2013 ESF programme in Lowlands and Uplands Scotland address the strengths, weaknesses and opportunities of the region?

Members support the three priority ESF themes. However all three themes are key to addressing identified weaknesses in the South of Scotland. In particular it should be recognised that employability is both an urban and rural issue. Getting people into work in areas of rural deprivation is a factor identified in the South of Scotland Labour Market and Economic Intelligence Network study.

The targets and indicators need to be flexible and offer opportunities to make a difference across the whole geographic area of the South of Scotland and cover the main priorities as set out in the competitive strategy using ESF support as follows:

- Retain and attract more people of working age (ESF & ERDF)
- Grow a knowledge economy in the South of Scotland (ESF & ERDF)
- Increase the demand for learning and skills development amongst the workforce and wider community (ESF)
- Realise the full potential of the indigenous business sectors and maximise the contribution of Scotland's priority industries and in particular the food, tourism, textiles and renewable industries. (ESF & ERDF)

Question 5: Do the proposed priorities for the 2007-2013 ESF programme in Lowlands and Uplands Scotland show appropriate coherence and concentration?

The priorities show coherence and concentration, however in order to maximise the synergy of both ERDF and ESF funding as identified in the South of Scotland Competitiveness Strategy there needs to be some access to P1 funding in the Small Towns.

- **Priority one**, Employability is both an urban and rural issue. This type of ESF assistance is required to support the South of Scotland competitiveness strategy priority to increase the demand for learning and skills development amongst the workforce and wider community (ESF) which includes the measure of support for local programmes to assist people who lack the necessary levels of skill needed in current labour markets to secure employment or to help people who are socially excluded to get back into work. Current research shows that whilst the current South of Scotland Objective 2 Programme has had measurable success in reducing the proportion of the working population with no qualifications the overall level of people lacking recognised qualifications is still below that for Scotland and the UK overall.
- **Priorities two and three ESF** that support from these priorities will be important in supporting the South of Scotland competitiveness strategy priorities as set out in response to question three.

Question 6: what are your views on the proposed balance of funding between priorities for the future ERDF programme in Lowlands and Uplands Scotland?

Experience of previous funding allocations from both the current Objective 2 programme, and the previous 5b programmes have identified a difference between initial ambition and subsequent implementation. In these programmes there has been

slower percentage commitment from Priority 1. Business Enterprise This may reflect different support needs for sustainable business development in rural areas which should be considered in the funding balance for the new programmes.

Question 7: what are your views on the proposed balance of funding between priorities for the future ESF programme in Lowlands and Uplands Scotland?

The National Strategic Framework identified the special employment issues faced by the rural areas of the Highlands and Islands and the South of Scotland in terms of low wage economies. It also drew out the support needs of communities with a high preponderance of self-employed, part time and under-employed workers, (which are again a characteristic of the rural South of Scotland) who are least likely to undertake any sort of learning. To address this need in rural areas Members suggest that consideration be given to allocating more resources to ESF priorities two and three. This would be in line with the thrust of the South of Scotland competitiveness strategy 2007 – 2013.

Question 8: do the proposed priorities outlined in the draft operational programmes focus sufficiently on the right priorities in Scottish domestic policy?

Members welcome the increased links to Scottish domestic policy, although they consider that there is a need to say more about the linkage to Scottish rural policies. Members hope that targets and indicators will be consistent with such policies to make evaluations more relevant and integrated.

Question 9: what are your views on how the principle of environmental sustainability has been integrated into the operational programmes?

Members welcome the consistency with national policies and the commitment to delivery of the Scottish Sustainable Development Strategy through the use of EU funds. The environmental assets of the South of Scotland play a key role in supporting sustainable economic development and social wellbeing. It is therefore entirely appropriate that European Structural Funds are directed towards projects which wherever possible have a neutral or positive impact on this living resource and that the implications of projects are understood. Projects delivered with EU funds should demonstrate the true costs to society.

The horizontal themes should be recognised in the sections on the regulatory and policy background (chapter 3) as well as under implementation (chapter 6). There needs to be clear recognition of commitment to Sustainable Development in Chapter 3 to context subsequent proposals.

The consultation document cites the Scottish Sustainable Development Strategy requirement to;

- **Natural resource protection and environmental enhancement:** *protecting natural resources by developing a better understanding of environmental limits and actively improving the quality of the environment.*

However the draft OP ERDF interpretation in Chapter 6 appears inconsistent with this commitment, instead stating;

'For example...Natural and environment resource protection will be reinforced

by supporting projects that give such objectives strong economic development grounding in making full sustainable economic use of environmental assets'

This would appear to be insufficient in terms of addressing both the national policy, and Article 17 of Council Regulation (EC) No 1083/2006. It does not appear to adequately address '.....*protecting and improving the environment.....*'

Members generally support the review and proposals for the horizontal themes as articulated particularly in the ESF programme,. The ESF OP analysis, and the proposals for mainstreaming and the integration of equal opportunities should be applied consistently across the horizontal themes.

In the current Objective 2 programme. the principle of sustainable development has been incorporated at application, evaluation and monitoring levels The legacy review of the South of Scotland programme has highlighted a number of notable achievements in mainstreaming of horizontal themes but at the same time it has identified a number of learning experiences which can be used to help ensure that the new Programmes can build further on achievements to date. Amongst these are the benefits of having expert advisors to champion the integration of horizontal themes as well as role models from within the business community itself who can provide direct business benefits accrued from active adoption of sustainable development (and equal opportunities) principles. We would look for the lessons learnt to be incorporated into management of the next programme and recommend that the new IABs are structured to provide expert advice.

One of the challenges for the new programme will be its ability to make a difference on issues such as climate change and decoupling resource use and waste generation from economic growth.

Members would expect that issues raised in the SEA of the programme will be fully addressed in the final programme and its delivery.

Question 10: what are your views on how the principle of equal opportunities has been integrated into the operational programmes?

Members welcome the commitment to a programme which is consistent with national policies and one that fully integrates the Executives 'Equality Strategy-Working Together for Equality'. However the horizontal themes require recognition in the sections on the regulatory and policy background (chapter3) as well as under implementation (chapter6).

The principle of equal opportunities and the need to address the six equal opportunities strands is fundamental, and Members support the review and proposals for the horizontal themes as articulated in the ESF programme, particularly the proposals for mainstreaming. Projects delivered with EU funds should demonstrate the true costs to society.

The principle of equal opportunities has been incorporated at application, evaluation and monitoring levels in the current Objective 2 programme. The legacy review of the South of Scotland programme and others in the LUPS area have highlighted the mainstreaming of horizontal themes as one of the key successes. Members would look for this legacy to be adequately incorporated into management of the next programme.

Question 11: what are your views on how the operational programmes will ensure complementarity between structural funds and other EU funding streams?

This should be achieved at two levels. The Managing Authority should seek complementarities and avoid overlap through national level consultation. In addition the IABs and IDBs should be encouraged to seek close working arrangements with other EU fund PME's to identify complementarities and so develop more of a gateway approach at local level, and to seek possible monitoring efficiencies.

The South of Scotland Competitiveness Strategy is one way to integrate delivery at local level using an agreed strategy.

There is a need to ensure complementarity with ERDF Priority 3 and the Rural Development Programme and LEADER in developing targets and delivering the benefits.

Question 12: how can the challenge-fund approach be improved to make it more effective in delivering outcomes and more efficient in operation?

Challenge fund delivery would be most effective if it contributes to a broader strategic approach.

One element identified by members is the need to strengthen skills in project management amongst applicants. Training and guidance in this area needs to be available at an early stage of the programme and could be coordinated by the IAB.

Members would expect that the current eligibility criteria would not be extended to exclude otherwise eligible applicants from applying for challenge funds.

Experience from the Objective 2 Programme would suggest that any challenge fund scheme needs to have an assessment system which will look beyond well crafted applications to consider real capability of both project and applicant to deliver quality outcomes.

South of Scotland partner feedback has highlighted a number of practical issues to do with monitoring - the importance of ensuring that projects that are successful in obtaining challenge funding are able to record their true impact, the problems with over-specified monitoring systems and the consequent benefit of perhaps fewer but key performance measures, and most importantly a capability for qualitative as well as quantitative monitoring.

Challenge funding can help to encourage genuine innovation but only where the appraisal and the performance monitoring systems acknowledge that innovation can carry a degree of risk. Appraisal systems would need therefore to include an evaluation of the anticipated degree of risk, how risk factors will be monitored and how risk elements will be managed.

Question 13: what would be the most effective approach to using community planning partnerships and other local partnerships for the delivery of elements of the programmes?

Members would support the use of Community Planning Partnerships for delivery of

elements of the Programme, particularly where they are operating within a relevant and agreed strategy and action plan.

Members welcome the opportunity to work with the *'Partners ...invited to develop an annual plan for spending the funding by identifying key strategic projects that would support the region as a whole in line with the region's competitiveness strategy'*.

Question 14: what are your views on spatial targeting for community regeneration under ERDF priority 2 and ESF priority 1?

Some spatial targeting is appropriate however there also needs to be a general fund to achieve complementarity with other priorities where a coordinated approach is planned for example in the case of the South of Scotland Competitiveness Strategy.

Question 15: what are your views on spatial targeting for rural development under ERDF priority 3?

Members warmly welcome the statement in the Programme that:

'a portion of the funds under this priority would be allocated on a commissioning basis for rural areas in the Scottish Borders and Dumfries & Galloway, reflecting the scope for supporting significant, region-wide projects of strategic importance. Partners here would be invited to develop an annual plan for spending the funding by identifying key strategic projects that would support the region as a whole in line with the region's competitiveness strategy.'

This statement recognises the similarity of the issues and challenges in the South of Scotland to those in the Highlands and Islands. This similarity has been recognised by the DTI in its National Strategic Reference Framework, published on 23 October 2006, where it was noted that: "rural areas such as the Highlands and Islands and the South of Scotland face their own distinctive employment challenge with the concentration of jobs in low-wage industries such as tourism, fishing and agriculture, where underemployment tends to be prevalent.")para 212 NSRF)

<http://www.dti.gov.uk/files/file34769.doc>

The similarity was also recognised within the context of the innovation system in Scotland. A report published by the Scottish Executive earlier this year "The Scottish Innovation System: Actors, Roles and Actions" recognised that "firms in the Highlands and Islands, Borders and Dumfries and Galloway are in many ways excluded from any positive system dynamic at the moment."

<http://www.scotland.gov.uk/Publications/2006/01/18151934/0>

The Strategic Environmental Assessment (SEA) Report for the Scottish Lowlands and Uplands ERDF Operational Programme 2007-2013 identifies the geographical distinctiveness of the South of Scotland (para 4.3) in that it divides Scotland *'...into three distinct areas: the Southern Uplands, the Central Lowlands (or Central Belt) and the northern Highlands and Islands. The Southern Uplands are recognised as having particular strengths and weaknesses such as the 'magnificent scenery'.. important rivers...'* and the impact of altitude. The geomorphology effects accessibility of remote settlements and small towns. The SEA report draws analogies with the issues facing the Highlands. *'The Galloway hills are more similar to parts of the Highlands and Islands... in being more rugged with large areas of bare rock, thin covers of glacial deposits and shallow soils'*

The South of Scotland Competitiveness Strategy could take a key role in addressing these issues. Endorsement for this sort of approach comes in an independent report "Adding Value: Keeping Value" which suggests, firstly, that impact is strongest where geared towards a specific development goal and, secondly, that this seems to have been most readily achieved when defined in terms of local geography or specific niche sectors.

Question 16: do you have any additional comments on the draft structural funds operational programmes for Lowlands and Uplands Scotland?

Members consider that a locally appointed Programme Monitoring Committee and a locally based Programme Executive have been critical to the effective delivery of the Objective 2 Programme. Members are concerned about the geographical reach required of a LUPS PMC and recommend that the management of the programme should give appropriate consideration to spatial balance

One of the key outcomes of the review of the achievements so far of the South of Scotland Objective 2 programme has been the synergy achieved from effective partnership working. The level of cooperation on joint projects is perceived to have benefits beyond the projects feeding into more integrated and collaborative approaches on a range of issues.

The Programme Monitoring Committee has also recognised the role of the Objective 2 programme in strengthening and building capacity in the voluntary sector. This has impacted positively on social inclusion and should be retained as a key strength of future programmes. The development of bottom up initiatives in rural areas has helped social cohesion and increased local participation in decision making.

Support needs to be available from the Lowlands and Uplands Scotland programme to support the main priorities of South of Scotland programme as set out in the South of Scotland Competitive Strategy 2007 – 2013 using both ERDF and ESF support as follows:

1. Retain and attract more people of working age (ERDF and ESF)
2. Grow a knowledge economy in the South of Scotland (ERDF and ESF)
3. Increase the demand for learning and skills development amongst the workforce and wider community (ESF)
4. Maximise the benefits of connections to city regions and other economic centres including mainland Europe (ERDF)
5. Realise the full potential of the indigenous business sectors and maximise the contribution of Scotland's priority industries and in particular the food, tourism, textiles and renewable industries. (ERDF and ESF)
6. Build a distinctive high quality place to live, work and visit (ERDF)
7. Develop the coastal and land based assets of the South of Scotland (ERDF)