

STRUCTURAL FUND PROGRAMMES 2007-2013

LOWLAND AND UPLAND SCOTLAND

CONSULTATION QUESTIONS

***Q1** 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?*

The Consortium recognises that the reduction in the overall level of structural funds in Lowland Scotland will require a realistic approach to be taken as to what the programmes can achieve. The total available funds for the 2007-2013 period equate to about £60m per year. By way of comparison total GVA in the so-called “LUPS” area amounted to around £74bn in 2003. It is therefore unlikely that the programmes in themselves will be able to make a measurable impact on the region’s aggregate economic performance.

On the other hand the programmes could make a real difference if assistance was highly concentrated on a small number of communities and themes.

Additionally it is important that the Scottish Executive takes full account of both the reduction in overall funding and the constraints imposed by Lisbon “earmarking” when planning the next “domestic” public expenditure round. This point was made by the Scottish Parliament’s European and External Affairs Committee report (June 2006) into the Executive’s plans for future structural programmes. Specifically the committee (paragraph 74) drew attention to domestic spending programmes for infrastructure and tourism development. The Executive’s response (25th August 2006, paragraph 19) highlighted the fact that nearly half the ERDF for the 2000-2006 period was allocated to projects under these two headings. The impact of the new structural fund regime will therefore be more than marginal for these activities.

In the West of Scotland there is a particular need to sustain the momentum for recycling derelict and vacant land. The large stock of land in this condition acts as a powerful drag on the regeneration of many communities in the West of Scotland. ERDF assistance has made a significant contribution to accelerating the process of bringing back such land into productive use. The reduced capacity for ERDF to support this activity is therefore a particular concern.

***Q2** Do the proposed priorities for the 2007-2013 ERDF programme in Lowlands and Uplands Scotland address the strengths, weaknesses and opportunities of the region?*

No, the Consortium has some detailed comments (attached) on this part of the ERDF programme document but essentially the weakness of the priorities as specified in the document is that they give insufficient weight to the spatial distribution of economic need in the programme area.

***Q3** Do the proposed priorities for the 2007-2013 ERDF programme in Lowlands and Uplands Scotland show appropriate coherence and concentration?*

No, the analysis clearly demonstrates that the biggest economic development challenges, whether with regard to the size and dynamism of the business base or the location of socio

FINAL

economic disadvantage lie in the West of Scotland. This finding is inadequately followed up in the subsequent architecture of the programme.

In particular the Consortium would advocate a high level of spatial targeting under ERDF Priority One. If this is not done then the much lower volume of funds available will drift from the parts of the LUPS area with a less developed business base to the more successful regional economies of lowland Scotland. There is ample evidence from the experience of the Scottish Co-investment fund and the Scottish Executive SMART and SPUR programmes to substantiate this concern. In making this point the Consortium is not arguing for micro zoning but rather targeting at a fairly high geographical level (either NUTS 2, local enterprise company or local authority area).

<p>It cannot be a rational use of limited resources for substantial structural funds under this priority to be spent in areas that are already performing well in terms of the Lisbon agenda and where market failure is not evident.</p>
--

Q4 Do the proposed priorities for the 2007-2013ESF programme in Lowlands and Uplands Scotland address the strengths, weaknesses and opportunities of the region?

The Consortium has some detailed comments (attached) on this part of the ESF programme document. However one topic that is not properly addressed is the impact of demographic change in Scotland over the coming years. In particular some analysis of issues such as trends in the overall labour supply, the age profile of the labour force and the potential impact of migration would be useful.

To give a practical example, Glasgow's 10 year economic development strategy – jointly produced by the City Council and Scottish Enterprise Glasgow – points out (page 30) that competition from migrant workers may make the task of integrating the non economically active into the labour market more difficult. This situation is surely applicable across much of the lowland Scotland area.

Q5 Do the proposed priorities for the 2007-2013ESF programme in Lowlands and Uplands Scotland show appropriate coherence and concentration?

No, in its response to the National Strategic reference Framework (NSRF) consultation, the Consortium queried whether a separate priority for lifelong learning was required – this being perhaps more appropriate for Convergence programmes.

The Consortium notes that, in England Wales and Northern Ireland, only two priorities – broadly comparable to the proposed priorities one and two in the Scottish employment programme - are envisaged for the Employment programmes: in line with the initial proposals set out in the initial NSRF.

It would seem that the bulk of the activities envisaged under priority three in Scotland could be subsumed within the other two priorities. In addition the Consortium is aware that only about 10% of the 2000-2006 Lowland Scotland Objective Three Programme was allocated to the Lifelong Learning Priority (Priority 3). Even with this limited allocation it proved difficult at the outset to generate sufficient projects, necessitating these activities being included in the “rolling programme” process.

Q6 What are your views on the proposed balance of funding between priorities for the future ERDF programme for Lowland and Upland Scotland?

FINAL

The Consortium has long recognised the constraints imposed by the Lisbon “earmarking” provisions and indeed dealt in some depth with this matter in its response to the draft UK NSRF. Page 9 of the Scottish Executive’s introductory document makes clear that the 48% figure Priority One ERDF has been driven by “earmarking” considerations – thus justifying the Consortium’s earlier concerns.

If almost half of the resources are allocated to a non spatially targeted priority one, there is a substantial risk that the vast majority of supported activity will take place in the more prosperous parts of Scotland. This will have the effect of widening rather than reducing regional economic disparities within Scotland – a perverse outcome for an instrument designed for the opposite purpose! (see response to Question 3)

In addition by implication the allocation to the three priorities would have been different in the absence of these constraints. The Consortium considers that the Executive should be prepared to justify a greater proportion of the activities foreseen under priorities two and three as being compatible with Annex 4 of the structural fund general regulation. As a last resort it could seek an extension to the list of Annex 4 activities, according to the procedure laid down in Article 9 (3) of the regulation.

The Consortium would like to stress that it fully supports structural fund assistance being available in certain parts of the LUPS area for company formation and growth as well as for the greater utilisation of innovation and research and development activity by business sector. However the experience of recent programmes is that uptake of these funds can be slow and there is a risk that quality issues (as well as the need for spatial targeting – cf response to question 3) could be overtaken by the imperative to meet N+2 targets.

With respect to the relative allocations between priorities two and three it is difficult to make a definitive judgement as to the appropriate balance in the absence of formal clarification from the Scottish Executive as to which parts of the country are considered “urban” and which “rural” for the purposes of this exercise. Indeed one of the concerns that the Consortium has is that many areas of need in the West of Scotland do not fit neatly in either category and there is therefore a danger that they will be unable to access support from either priority.

However some tentative assessment of the proposed allocation can be made on the basis of data contained in the 2006 Scottish Index of Multiple Deprivation (SIMD) and the summary table that appears on page 23 of the programme document (in turn derived from the Scottish Executive Urban Rural Classification).

Over two thirds of the population of the LUPS area live in areas that are either “large urban” or “other urban”. However 89% of the 15% most deprived data zones fall into these two categories. This is equivalent to a population in excess of 700,000. As a comparison, the more rural classifications contain areas with a combined population of just over 60,000.

This would seem to indicate that the proposed allocation to these priorities (€7m for urban and €7m for rural – equivalent to a 55%/45% split) is flawed. Although the Consortium recognises that the range of activities to be supported in these priorities will be different it is important that funding allocations are directed effectively to meet Lisbon objectives. In this context it is worth recalling that one of the main objectives of the UK National Reform Programme is to raise the employment rate to 80%. Significant progress towards this ambitious objective will only be made if funding is directed towards those parts of the country where there is the greatest incidence of non-employment and these, in the LUPS area, are overwhelmingly concentrated in the more urbanised or “post industrial” parts of the region.

FINAL

It is also worth noting that the more rural parts of the region will be able to access some additional, albeit modest, support from the European Agricultural Fund for Rural Development Fund (via the Scottish Rural Development Programme) and the European Fisheries Fund.

While it would perhaps be going too far to allocate monies strictly according to the location of 15% most deprived data zones (89%/11%), there is a strong case for altering the relative allocations to these priorities, perhaps to 75%/25% or at the very least 67%/33%. In making this suggestion the Consortium would point out that some of the larger settlements in what might otherwise be regarded as rural areas could benefit from Priority Two ERDF.

<p>As indicated elsewhere in the response the important point is to focus assistance on areas of economic need, irrespective of population densities or settlement patterns.</p>

Overall a split of monies along the lines of 40%/40%/20% would be a better response to the economic and SWOT analyses contained in the draft programme document.

Q7 What are your views on the proposed balance of funding between priorities for the future ESF programme for Lowland and Upland Scotland?

As indicated in the response to question 5, the Consortium does not consider that the case for three priorities under the ESF programme has been made. If it is finally decided to proceed with this structure the Consortium would argue that the resources allocated to priority three should be reduced to around 10% of the budget. Overall therefore a 50%/40%10% allocation might be envisaged.

Q8 Do the proposed priorities outlined in the draft Operational Programmes focus sufficiently on the right priorities in Scottish domestic policy?

The Consortium is disappointed to note that only Scottish Executive strategies are mentioned in the text of the document – some (headline) reference should be made to regional and local strategies promoted by other sectors such as local government. It is through these more localised frameworks that much of the actual activity foreseen the Scottish level strategies actually takes place.

Q9 What are your views on how the principle of environmental sustainability has been integrated into the Operational Programmes?

It is difficult to respond fully to this question the Environmental Report for the LUPS programme was only uploaded onto the Scottish Executive website on 29th November 2006 and the Consortium has not had time to consider this material in detail.

However Scottish partners have had considerable experience in integrating the principle of environmental sustainability into structural fund programmes. This involves ensuring that the project selection process gives appropriate weight to these issues and that organisations and individuals who have the necessary expertise are involved in the programme management process.

The Consortium therefore welcomes the fact that the Environmental Report (page 9) makes broadly similar points.

FINAL

In addition some references to the conclusions of the “Linking Sustainable Development to Regional Development” report could usefully be included in the programme document.

Q10 What are your views on how the principle of equal opportunities has been integrated into the Operational Programmes?

It is difficult to respond fully to this question since, as at 29th November 2006, the Equal Opportunities and Racial Impact Assessments for the LUPS programmes were not available on the Scottish Executive website.

However Scottish partners have had considerable experience in integrating the principle of equal opportunities into structural fund programmes. This involves ensuring that the project selection process gives appropriate weight to these issues and that organisations and individuals who have the necessary expertise are involved in the programme management process.

Q11 What are your views on how the Operational Programmes will ensure complementarity between structural funds and other EU funding streams?

The proposal that complementarity with other EU funding streams will be ensured through an annual meeting of the relevant management authorities (page 66) is inadequate since this would effectively involve the Scottish Executive talking to itself. It would also be inconsistent with the tasks of the Programme Monitoring Committee as outlined on pages 74/5.

The monitoring of complementarity with other EU funding programmes should instead be carried out at partnership level. A regional dimension could usefully be built into this system. In addition to the rural development and fisheries programmes, the model could be extended to cover the transnational cooperation programme with Ireland (relevant to the South and West of Scotland) and also the Seventh Framework Programme. The flow chart included in the response to question 16 illustrates this proposal.

Q12 How can the challenge fund approach be improved to make it more effective in delivering outcomes and more efficient in operation?

The current challenge fund approach that has evolved in Scotland has many advantages and has the advantage of being widely understood. It is also widely admired in the EU as an example of good practice.

<p>The burden of proof for demonstrating that the partnership based, challenge fund approach is less effective than a “commissioned” or “single stream” model must lie with those who advocate the latter mechanism. This would need to be solidly “evidence based”.</p>

Essentially the Consortium believes that fine tuning rather than radical overhaul is required. In developing the appraisal systems for the challenge fund process more emphasis should be made on the fit between the applications and relevant local and regional strategies and plans. This is required to address the fact that the programme will cover (at least in ERDF terms) a much wider geographical area (see response to Question 16 for further detail).

Q13 What would be the most effective approach to using Community Planning Partnerships and other local partnerships for the delivery of elements of the programme?

FINAL

The Consortium welcomes the recognition in the document that Community Planning Partnerships could play a significant role in the programme delivery arrangements.

In addition to the direct role envisaged for elements of Priority Two ERDF and Priority One ESF, Community planning partnerships could fulfil a similar function under priority three ERDF (see response to question 15 for further details).

Outwith these areas of activity, Community Planning Partnerships could also have a role in verifying the fit between project applications and local strategies (this would apply to all other priorities). This is illustrated in the response to Question 16.

Q14 What are your views on spatial targeting for community regeneration under ERDF Priority 2 and ESF Priority 1?

Spatial targeting under this priority will be essential. However experience gained in recent years in the Western Scotland Objective two programme with limiting support to the 15% most deprived data zones suggests that a less mechanistic approach is required.

Data zones are artificial units with no inherent economic meaning. Many are in fact little more than small housing estates. In addition they are small units (with a typical population of only a few hundred). Within a given council area the worst 15% datazones may be widely dispersed across the territory of the authority. This makes the development of regeneration or labour market projects problematic.

One option could be to use the SIMD analysis to arrive at an overall level of population coverage under this priority for each local authority concerned (presumably excluding those authorities or parts thereof that are considered “rural”). This would be equivalent to the proportion of the authority’s population resident in the 15% most deprived data zones. Within this limit Community Planning Partnerships would then have the opportunity to define their own coherent spatial priorities and so be able to bring together the areas of need with localised areas of opportunity.

Another point with respect to Priority One ESF is to maintain some degree of flexibility so that not all participants in supported activities need be residents of the designated areas (15% most deprived data zones or whatever alternative zoning regime may be put in place). Having this leeway would achieve a wider range of training and related provision and deliver some economies of scale.

Q15 What are your views on spatial targeting for rural development under ERDF Priority 3?

The Consortium considers that spatial targeting based on addressing market failure is just as important under this priority as in the others. Areas should not be eligible for funding merely because of their “rural” nature but rather on the basis of proven economic circumstances.

The proposal to allocate an unspecified proportion of the monies available under this priority to the South of Scotland requires much more rigorous justification – there is no evidence put forward to indicate that the problems in this part of the LUPS area are any more acute than those in other parts of rural Scotland.

Nevertheless the Consortium recognises that the Action Plan approach may have some value in allowing integrated packages of small scale actions to be supported by the structural funds.

FINAL

Clearly however if this approach is to be adopted then it should be done so on a pilot basis (cf Question 13 concerning the proposals for integrating Priority One ESF with Priority Two ERDF). If successful then the approach should be replicated in other parts of rural Scotland.

Q16 Do you have any additional comments on the draft Structural Funds Programmes for Lowlands and Uplands Scotland?

The Consortium has a number of detailed comments on the programme that are annexed to this response. There are however two issues that it would wish to highlight at this stage.

“Commissioned” Projects – Priority One ERDF

The proposal to “commission” projects from the Scottish Enterprise network under Priority One ERDF represents a major change in programme management and views from stakeholders should have been explicitly sought as one of the consultation questions.

The Consortium remains unconvinced as to the merits of this approach and the arguments put forward in its favour in the consultation document rely on assertion more than evidence. For example it is not clear how the quality of financial control would be of a higher quality in a commissioned project as opposed to a challenge fund project. Both types of project would in any case have to comply with the same monitoring and audit arrangements to satisfy the structural funds regulations.

The indication that the projects commissioned would be “region wide” in scope reinforces the Consortium’s concerns that these activities would take place in the parts of the LUPS area where there is already a dynamic private sector and a high level of innovation and RDT activity.

Should the decision be taken to proceed with this mechanism then it should be done so on a time limited pilot basis. Moreover the “commissioning” should be initiated by the partnership (through the Programme Monitoring Committee) rather than by the Managing Authority acting unilaterally.

Decision making Structures below the Programme Monitoring Committee

Although the consultation does not explicitly solicit views on how the programme should be managed below the level of the Monitoring Committee, the Consortium considers that it is relevant to raise this matter at this time.

The Mid Term evaluation of the Western Scotland Objective Two Programme (December 2003) identified major problems with the credibility and performance of the Programme Monitoring Committee. The relatively poor attendance record of “lay” members of the PMC illustrates the lack of real influence that this body has exerted. This situation must be rectified for the forthcoming programme period.

In contrast the roles of the Programme Implementing/Managing Committee and the advisory groups were perceived much more positively. What is required is that these elements of the process are retained since it is at these levels that the practical experience and skills of partners can be brought to bear effectively.

The Consortium therefore has developed a flow chart that illustrates how this system might work. This is attached.

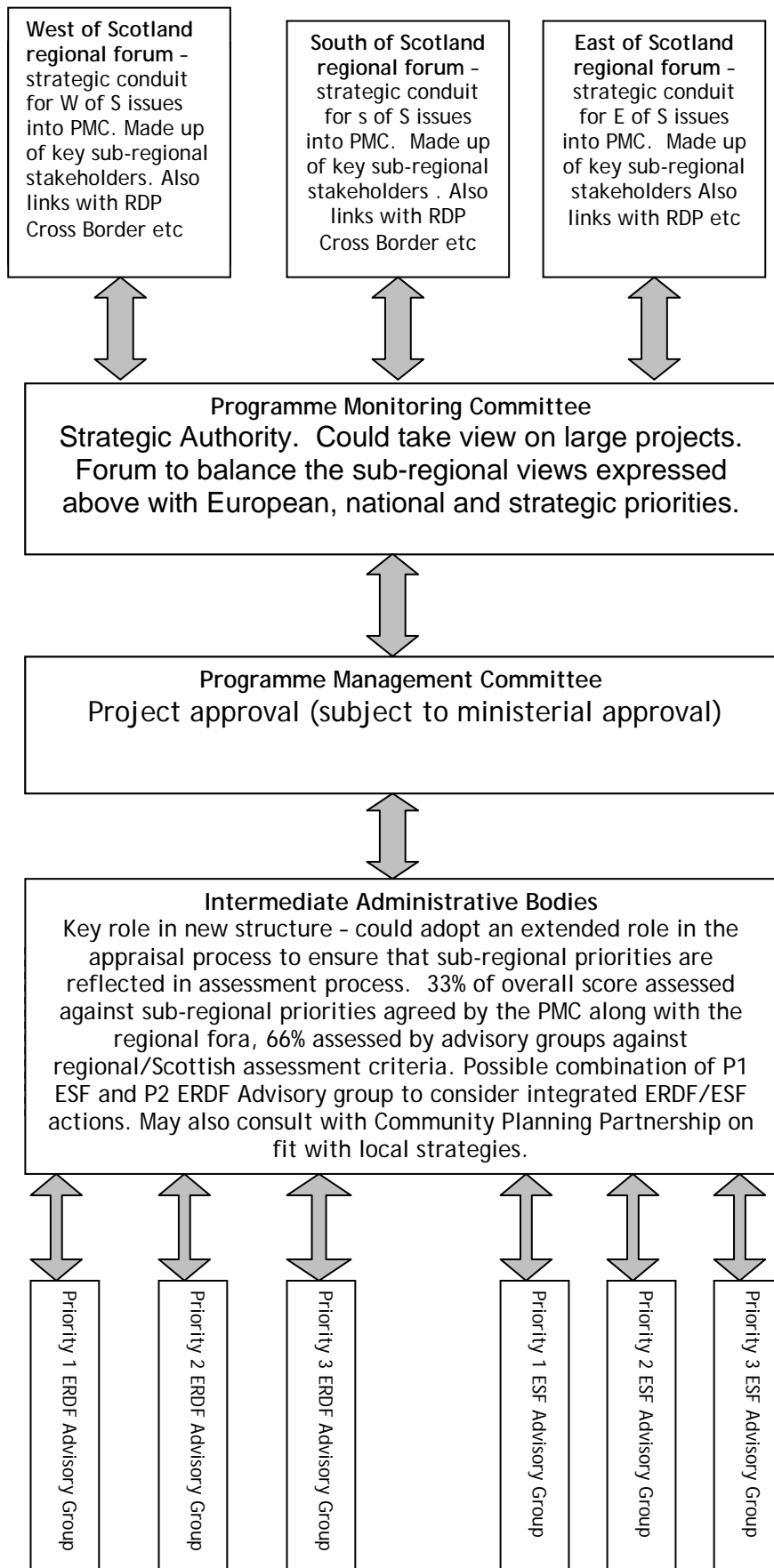
FINAL

The model has several attractions;

- It retains the expertise of stakeholders in project appraisal;
- It is a widely understood and respected mechanism within Scotland and an excellent example of good practice at EU level;
- It ensures that projects being put forward for support are genuinely embedded in local strategies; and
- It provides a mechanism for coordinating structural fund activity with other EU funding streams at an appropriate spatial level;

The Consortium would welcome the opportunity to develop and if required to “fine tune” this model in discussion with partners.

Alternative Structural Fund Delivery Model?



FINAL

ANNEX

DETAILED COMMENTS ON THE TEXT

(NB The Consortium has noted that there is a substantial body of text that is common to both programmes – so the comments that follow apply in many cases to the texts of both programme documents)

COMPETITIVENESS PROGRAMME

- Page 5 The Helensburgh and Lomond area of Argyll and Bute Council should be added to the list of areas within the South Western Scotland NUTS 2 region.
- Page 6 2003 data for GVA at NUTS levels 1, 2 and 3 were released by the Office for National Statistics as long ago as the 21st December 2005 – the analysis should be updated to incorporate this information.(data for 2004 may be published before the programme is submitted to the Commission and should be used if possible)
- Page 6 The first sentence of the third paragraph should read “...*per capita* gross value added...” In addition GVA per capita information at NUTS level 3 is often heavily distorted by commuting flows and the analysis should not attempt to go below NUTS level 2
- Page 7 GVA per head is **NOT** a good measure of productivity – the more accepted indicators for productivity performance are either GVA per employee or GVA per hour worked. The data contained in the Department of Trade and Industry’s publication “Regional Competitiveness and the State of the Regions” (July 2006) indicate a worsening Scottish performance in comparison to the UK average: from 99.6% in 1996 to 96.8% in 2004 in terms of GVA per employee and from 101.1% in 1996 to 98.1% in 2004 in terms of GVA per hour worked.
- Page 7 It is **JUST NOT THE CASE** that worklessness is particularly acute in rural areas (Key messages, third bullet point). In fact the converse is true, as indicated in table 11 (page 24) – this is a phenomenon associated with larger urban and former industrial areas. This entire section needs a thorough revision.
- Page 8 Table three contains important information and adds considerable weight to the arguments for spatial targeting under ERDF priority one.
- Page 9 The word “relatively” should be inserted in the first line of the first bullet point after “protect”.
- Page 18 Table 8 should be updated to incorporate the results of the 2006 SIMD.
- Page 30 Reference should be made to the role of the social economy and social enterprises in the paragraph numbered 5.
- Page 43 The overall vision statement as written does not make sense! A better formulation might read “to contribute towards the sustainable growth of the regional economy by addressing specific market failures – both spatial and

FINAL

thematic - that prevent the area as a whole from reaching its optimal level of economic activity.”

- Page 45 The word “enterprises” in the bullet point at the foot of the page should be replaced by “investment”.
- Page 50 In the third bullet point of the first set of bullet points, the word “survival” should be replaced by “expansion”.
- Page 51 The limitation of activity under this heading to so called “high growth” enterprises is unnecessary, accordingly the phrase “to high growth potential” in the bold text should be replaced by “for viable”.
- Page 55 In the third bullet point of the “Key Activities” section, the Phrase “including social enterprises” should be added after “SMEs”. In the final bullet point an explanation is required as to the meaning of “patient” in this context.
- Page 59 The limitation on support for new product development in the textile sector for export is not required – new product development for the domestic UK market is just as valid.
- Page 64 The reference to Priority 3 in the third line of the third paragraph is an error. It should be Priority 2.
- Page 64 In the final paragraph, the phrase “aspects of” should be inserted after “complement”.
- Page 65 The text of section 5.2 will need to be revised to include references to the eligibility of the whole LUPS area for the North West Europe Cooperation Programme and also for parts of the area being covered by the Atlantic Area Cooperation Zone. Some of the activities supported under the transnational programmes (for example within priority 4 of the draft North West Europe Programme – Promoting Strong and Prosperous Communities) could complement those undertaken under priority two of the LUPS programme. Consequently the text of section 5.2 should be revised to make this point.
- Page 67 Although not directly relevant for the ERDF programme, some elaboration as to why it is expected that the coastal zones of the Borders region would be the main area where European Fisheries Fund support is likely to be available would be appreciated.
- Page 68 The Consortium notes the possibility of using the JEREMIE and JESSICA instruments and would wish to be kept informed of any discussions that the Executive may have with the European Commission and European Investment Bank on these matters.

EMPOYMENT PROGRAMME

- Page 7 The phrase “by historical standards” should be inserted after “performing well” in the first line of the text headed “Labour Market”.
- Page 8 The second “key message” is virtually meaningless. It should refer to the worsening Scottish performance on this indicator in comparison to the UK as a whole (cf comments on page 7 of the ERDF programme).

FINAL

- Page 9 The subtitle of the opening section should read “Employment and Unemployment”. The data in this section should be updated to cover 2005 since this information was published by Eurostat on 16th November 2006.
- Page 9 There should be some elaboration in this section of the significance of Incapacity benefit claimants 11% of the working age population claimed sickness and related benefits in 2005 – a much higher proportion than that for Job Seekers Allowance.
- Page 14 The phrase “who are workless” in the second line of the second paragraph is redundant and should be deleted.
- Page 16 Delete “in relative terms” from the final bullet point in the “Key Messages” section. This is a tautology.
- Page 24 The reference to “S4” in the first paragraph is an error - it should be “S5”.
- Page 49 The aim of this objective is to *improve labour market participation rates*, thereby increasing the size of the labour force.

ML
December 2006