



**Lowlands and Uplands Scotland ERDF and ESF Programmes 2007-2013
Programme Monitoring Committee**

**LOWLANDS AN UPLANDS SCOTLAND PROGRAMMES 2007-2013
FIRST ROUND APPROVALS –
IMPLICATIONS FOR PROGRAMME IMPLEMENTATION
REPORT BY SCOTTISH GOVERNMENT**

1. Purpose

- 1.1 To advise the Committee of the policy background, context and operational factors impacting upon the deliberations of the Committee in considering the recommendations of the Advisory Groups and the submissions of the separate SDB and Global Grants Agreements and the CPP bids.

2. Shadow Round

- 2.1 The late start to the 2007-13 Programmes presented a number of difficulties for some Structural Funds partners in Scotland and the services they delivered, especially those responsible for projects dealing with vulnerable client groups, such as the voluntary sector. To minimise the disruption Scottish Government provided funding to some projects supporting these vulnerable groups – this was referred to as the Shadow Round. Following the appraisal of the applications for funding, 49 applications were approved for total funding of £8,744,253 under this Shadow Round.

3. First Application Round

- 3.1 One of the significant changes to the business processes for the new Programmes was a two-stage application process. The First Stage was a formal expression of interest in applying for European Structural Funds, where applicants supply a brief summary description and outline expenditure figures and anticipated outcomes for the project. The aim for this stage of the process was to filter out those that do not meet the eligibility criteria and flag up any potential for collaborative bids.
- 3.2 The Second Stage allowed a full application to be submitted by those projects that have successfully passed the eligibility criteria under the First Stage.
- 3.3 The deadline for the submission of Second Stage applications for the first application round to the 2007-13 Programmes concluded on 9 November 2007. The following requests for ERDF and ESF funding were received under the second stage of the process:

ERDF

Priority	No of applications	Value of bids	Allocation
Priority 1	31	£67.7 m	£63.5 m
Priority 2	38	£70.1 m	£84.2 m
Priority 3	7	£20.6 m	£70 m
Priority 4	7	£3.5 m	£35.0 m

ESF

Priority	No of applications	Value of bids	Allocation
Priority 1	90	£53 m	£83.5 m
Priority 2	46	£24.2 m	£68.6 m
Priority 3	28	£14.2 m	£29.4 m

4. Advisory Group Process

- 4.1** Full applications were subject to technical/eligibility checks by the IAB and appraisal by the Managing Authority, the IAB Programme Managers, Advisory Group members and Scottish Government policy experts. The policy experts provided input in particular into the fit with strategic policies of the Scottish Government. Membership of the Advisory Groups was decided by the Scottish Government, as the Managing Authority.
- 4.2** The respective scores of the second stage application by the 'Virtual' Advisory Group members and the IAB Programme Managers, Managing Authority and Scottish Government policy experts were collated by the IAB and the previously agreed weighting factor applied. An average overall score was then calculated and checks were undertaken to ensure that any anomalous scores were justified and did not unreasonably affect the final score and ranking. Depending upon the range of average overall scores and the numbers of overall projects, 'Standing Advisory Groups' were then requested to consider a number of projects which scored above the notional quality threshold (33) and a number below the quality threshold. This afforded the opportunity to test and validate the initial scores in an open and frank debate where Standing Advisory Group members had been selected on the basis that they had no conflict of interest in respect of the projects under consideration. Where the numbers of



submitted projects were small as in ERDF Priority 3 and 4 all projects were considered by the Standing Advisory Group.

- 4.3** With regard to the CPP bids, and in view of the complex nature of these integrated programmes, it was necessary to adopt a different approach. All CPPs were invited to make presentation of their bids to a panel of Managing Authority officials and Scottish Government Policy experts. Following these presentations the Managing Authority, Scottish Government policy experts and IAB Programme Managers scored the projects. The scores were collated by the IAB and an average score generated for each of the 13 CPP bids. The 13 CPP bids were then appraised by a Standing Advisory Group comprising officials from the Managing Authority(s), ESF and ERDF, and relevant policy experts from the Scottish Government such as Communities Scotland and Community Planning. This was a departure from the standard practice of peer review but was in the circumstances necessary. The involvement of external stakeholder Advisory Group members was not possible since the vast majority of partner bodies would have had a conflict of interest; either as a partner within the CPP or as a potential delivery agent for the activity set out in the bid. For those Advisory Group members from organisations where there was no potential conflict of interest, there invariably was a lack of relevant knowledge and experience of the wider CPP policy context or urban regeneration and employability.

5. Strategic Delivery Body

- 5.1** Scottish Government has commissioned Scottish Enterprise as the Strategic Delivery Body (SDB) for the Lowlands and Uplands Scotland Programmes to deliver some key strategic projects. The Programmes will support activity that is both clearly additional to the existing activities of the SDB and for which the SDB is the only delivery agent. The SDB set out their planned activity through three-year outcome agreements that include annually-revised annual plans with financial and performance targets. Progress on the SDB bid has, perhaps inevitably, been slower than initially planned because of the wide ranging realignment of Scottish Enterprise activities and priorities. However, to ensure a level of peer review the SDB bids have been scored by virtual advisory group members. This initial scoring has been supplemented by a presentation by the SDB to MA and IAB staff as well as a panel of Scottish Government Policy Experts. Projects will be reviewed and monitored regularly under a detailed performance and outcome agreement to be finalized between the MA and Scottish Enterprise.

6. Global Grants Body

- 6.1** Scottish Government is investigating whether a local authority or other public



body in the South of Scotland can be commissioned to administer (partly at its own expense) a global grant under Priority 4 of the ERDF Programme (Rural Development) for three years in the first instance. Only projects in the South of Scotland meeting the criteria for Priority 4 will be able to bid into this global grant allocation. South of Scotland projects will consequently not have access to the competitive funding available under the rest of Priority 4 ERDF.

7. Community Planning Partnerships

7.1 Integrated urban regeneration plans will be delivered through Priority 1 ESF (Progressing into Employment) and Priority 3 ERDF (Urban Regeneration). The Operational Programmes identified Community Planning Partnerships (CPPs) as an effective delivery vehicle for such activity. Funding will be awarded to a selection of CPPs to allow them to implement employability/regeneration action plans which are additional to, but complementary with existing plans, allowing CPPs to deliver social inclusion and regeneration goals at a local level. Funding will be awarded for a period of two years and will be independently evaluated on completion of the projects.

7.2 Funding will focus on projects which integrate ESF and ERDF eligible activities to deliver sustainable outcomes for targeted communities and residents. There will be an emphasis on effective engagement with communities and, whilst fundamentally there is a requirement to achieve economic development outcomes, it will be expected that there will be evidence of progression which takes participants from a low starting baseline through to employment and/or training. The headline policy here is Employability and everything around the CPP proposals will have to be directed to that end.

7.3 CPPs were required to apply for both ERDF and ESF funding as their applications will be assessed on how well they can integrate funding from both Priorities. Funding will also be available for individual projects applying to these two Priorities. Organisations taking part in CPP applications can also submit separate applications for individual project funding, however the same activity can only appear in one application.

8. Policy Context

8.1 The Lowlands and Uplands Scotland ESF Programme should fit with and complement: the EU policy context: the Community Strategic Guidelines, which sets the indicative framework for the Cohesion Policy in support of the EU's growth and jobs commitments, the UK's National Strategic Reference Framework, as specified in Article 27 of the General Regulation, in which the chapter on Scottish Structural Funds goals provides the overall framework for Structural Funds spending in a Scottish context, the Integrated Guidelines on Growth and Jobs as approved by the European Council in June 2005, and the



European Employment Strategy recommendations; the UK policy context: the UK's National Reform Programme, detailing how the UK as a whole is addressing the challenges and targets developed as part of the wider Lisbon agenda, to which the Structural Funds are intended to contribute; and, lastly, the domestic policy context in the region.

8.2 The Lowlands and Uplands Scotland ERDF Programme should fit with and complement: the Community Strategic Guidelines, which set the indicative framework for the Cohesion Policy in support of the EU's growth and jobs commitments; the UK's National Strategic Reference Framework, as specified in Article 27 of the General Regulation, in which the chapter on Scottish Structural Funds goals provides the overall framework within which the ERDF Programme must fit; the UK's National Reform Programme, detailing how the UK as a whole is addressing the challenges and targets developed as part of the wider Lisbon Agenda, to which the Structural Funds are intended to contribute; and domestic policy initiatives.

8.3 **Lisbon Strategy:** Tighter restrictions on eligible activities have been introduced to the 2007-13 Programmes and they now have to meet expenditure targets set by the EU to ensure that activities contribute to achieving the EU's Lisbon Strategy goals for employment and economic growth. The Lowlands and Uplands programmes, funded through the Competitiveness Objective, must spend a minimum of 75% in support of the Lisbon goals:

- ♦ Making Europe a more attractive place to invest and work through extending and deepening the internal market, better regulation, more competitive markets and improved infrastructure.
- ♦ Knowledge and innovation for growth by increased investment in research and development.
- ♦ Creating more and better jobs through modernising social security systems, improving the flexibility of labour markets, investing in education and skills to improve human capital.

Research and innovation support has been prioritised in the EU Cohesion Policy for 2007-13 and has been given a separate priority in the Lowlands and Uplands Scotland ERDF Programme (Priority 1). It aims to help support the managerial and entrepreneurial skills required to support R&D in enterprises and establish new knowledge based businesses. Innovation, however, should not be seen as the exclusive domain of the research and commercialisation activity of Higher Education and Research Institutes but should include all organisations being more innovative and acting smarter.



8.4 UK and Scottish Government Strategies: Scottish Structural Funds Programmes have been designed to take full account of the Lisbon strategy to focus more sharply on the key priorities of jobs and growth. Member States are required to identify their priorities through their National Reform Programme (NRP). The UK NRP details challenges facing the UK economy and sets out the UK Government's strategy for delivering long term sustainable growth, high employment and a fair and inclusive society. Scottish Structural Funds Programmes continue to support the NRP through funding for employment and training projects, adding value to the UK's and Scotland's welfare-to-work and skills strategies. The Operational Programmes reflect a close strategic fit between support for funding and UK and Scottish Government strategies.

8.5 Government Economic Strategy

In November, the Scottish Government launched its new economic strategy – the *Government Economic Strategy* – which replaces existing economic and business development strategies such as the Framework for Economic Development in Scotland and Smart Successful Scotland. Structural fund interventions should support projects that will contribute to achieving the strategy's overarching Purpose : *to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.* The strategy identifies five Strategic Objectives:

- *Wealthier and fairer:* to enable businesses and people to increase their wealth and more people to share fairly in that wealth
- *Smarter:* to expand opportunities for Scots to succeed from nurture through to life long learning ensuring higher and more widely shared achievements
- *Healthier:* to help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care
- *Safer and stronger:* to help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life
- *Greener:* to improve Scotland's natural and built environment and the sustainable use and enjoyment of it

These are accompanied by five Strategic Priorities that are most critical to economic growth:

- Learning, Skills and Well-being
- Supportive Business Environment



- Infrastructure Development and Place
- Effective Government
- Equity

While Structural Funds will make direct and indirect contributions to all of these priorities, 'Equity' is of particular interest. The Strategy recognises the importance of ensuring sustainable growth and prosperity being fairly shared across Scotland as a whole, in terms of communities and areas as well as individuals. Actions will include ensuring the most remote areas of Scotland can contribute to, and benefit from economic growth and developing a more strategic approach to the growth of Scotland's cities, towns and rural areas. The 2007-13 Structural Funds programmes are wholly in line with the Purpose, objectives and priorities of the Government Economic Strategy.

The Strategy contains a series of targets for measuring progress. The headline targets are to raise Scotland's GDP growth rates to the UK average by 2011 and match the GDP growth rate of comparable small independent EU countries by 2017. Within the priority for equity, by 2017, the Scottish Government has committed itself to narrowing the gap in labour market participation between Scotland's best- and worst-performing regions. In addition, it also aims to increase overall income and proportion of income earned by the three lowest income deciles by 2017 and reduce greenhouse emissions by 80 percent by 2050.

A related development was the establishment in June of the Council of Economic Advisers (CEA), set up to advise the First Minister on the best way to improve Scotland's sustainable economic growth rate. The CEA will be chaired by Sir George Mathewson, former Chief Executive and then Chairmen of the Royal Bank of Scotland, and includes ten other members who come from the highest levels of business and economics. The CEA will:

- advise the First Minister directly about the best way to improve Scotland's sustainable economic growth;
- have quarterly meetings following the publication of the quarterly growth figures; and
- publish an annual report providing expert commentary on the Scottish economy.

The CEA met for the first time in September.

Skills Strategy

A new skills strategy, *Skills for Scotland – A Lifelong Skills Strategy*, was launched by the Scottish Government in September. One of the key announcements in the strategy was the creation of a new skills body involving the merger of functions previously held by Career Scotland, learndirect



Scotland and the enterprise networks (as described above). Its vision is “a smarter Scotland with a globally competitive economy based on high value jobs, with progressive and innovative business leadership”.

Action has been identified as required under the following headings in the strategy:

- *Individual development:* including developing a distinctively Scottish approach to skills acquisition, creating a coherent funding support system, and ensuring that the strategy promotes equal access to and participation in, skills and learning for everyone
- *Economic pull:* including stimulating increased demand for skills from employers, improving the utilisation of skills in the workplace, understanding current and projected demands for skills to help prepare for future skills needs, and challenging employers, learning providers, awarding bodies and others to use the Scottish Credit and Qualifications Framework as a tool to support learning.
- *Cohesive structures:* simplifying structures to make it easier for people to access the learning, training and development they need, ensuring that *Curriculum for Excellence* provides vocational learning and the employability skills needed, achieving parity of esteem between academic and vocational learning, challenging funding bodies to use their budgets to help achieve a step-change in skills development and use, and encouraging providers to see themselves as part of a continuum of provision.

Again, the 2007-13 Structural Funds programmes are wholly in line with the new skills strategy.

Climate Change and Energy

A new Climate Change Bill to cut greenhouse emissions by 80 percent by 2050 is in development.

9. Implications For Commitment And Spend

- 9.1** The Lowlands and Uplands Scotland competitiveness Programmes are substantially different from previous Structural Fund Programmes. Notwithstanding the overall reduction in funding, changed priorities, refocusing and greater concentration on revenue activities, have all had an impact on the level of activity which has come forward in this first round. This is particularly true for ERDF Priority 3, Urban Regeneration and Priority 4 Rural Development. The move away from large scale capital investment has also resulted in a significant proportion of ineligible activity being included in some applications under ERDF Priorities 3 and 4. It is clear that the MA and the IAB will have to take further action to engage with potential project sponsors in



order to explore the potential to generate more eligible activity under those priorities in particular. In contrast however, Priority 1 ESF, Progressing into Employment has been considerably overbid by a factor of 122% when the £8.7m Shadow Round commitment is included and the total CPP bid of £42m is added. This is despite the introduction of the minimum threshold bid value of £200,000 of total annual eligible costs. However, this overbid includes a significant number of multi-annual requests, with more than 78% of bids being for 2-3 years funding.

- 9.2** Also with regard to ERDF Priority 1 Research and Innovation this is overbid by 107% but again the majority of funding bids (80%) are for 3 years duration.
- 9.3** For ERDF Priority 2, Enterprise Growth, more than £47m of the total bid of £70m accounts for a number of risk capital measures including the Scottish Co-Investment Fund seeking £40m over the life of the ERDF Programme.
- 9.4** The position with regard to the level of bids received against each Priority is as follows;

	Total Priority Allocation	First Round Bid	Bid Value as % of Total Allocation
ESF Programme			
Priority 1: Progressing into Employment	£83.0m	£92.5m	122%
Priority 2: Progressing through Employment	£69.0m	£24.2m	35.0%
Priority 3: Widening Access to Lifelong Learning	£29.0m	£14.2m	49.0%
ERDF Programme			
Priority 1: Research and Innovation	£63.5m	£67.7m	107%
Priority 2: Enterprise Growth	£84.0m	£70.1m	83%
Priority 3: Urban Regeneration	£70.0m	£20.6m	30%
Priority 4: Rural Development	£35.0m	£3.5m	10.0%

Notes: Priority 1 ESF total priority allocation has taken account of c£8.7m from the Shadow Round already committed and the first round bid includes c£42m bid from CPP applications.



Priority 1 ERDF includes SDB bids of £27.8m.

Priority 3 ERDF includes a total of £17.3m in respect of CPP bids.

Priority 4 ERDF does not include c£19.0m in respect of the South of Scotland Global Grants Agreement. This figure covers the full span of the Programme i.e. 2007-2013.

10. Institutional Changes

- 10.1** The transfer of certain key business support services from Scottish Enterprise to local government which are now in the final stages of negotiation will inevitably create a gap in service delivery and uncertainties which in turn is likely to affect take up of business support services. Also the reorganization of Careers Scotland activity also puts a degree of uncertainty about the organizations new priorities. Consequently the changing landscape may impact upon expenditure and grant absorption for eligible projects.
- 10.2** Furthermore, the degree of organisational restructuring at Scottish Enterprise must be a matter of concern as the potential loss of key personnel and expertise to the economic development community represents a potential risk factor for the successful implementation of the Programme. This will be especially true in the early years of delivery.
- 10.3** Also, and of more immediate concern, it is already known that there is a level of duplication in business support scheme bids under ERDF Priority 2, which will require to be addressed prior to the issue of formal approvals. This is an added task for the MA and IAB but was perhaps inevitable given the fact that the first round is being delivered against a backdrop of rapid changes which are not yet finalised.

11. Duplication of Bids

- 11.1** Aside from the potential for duplication of bids under ERDF Priority 2 there is almost certainly duplicate activity included in bids under both ESF Priority 1 and ERDF Priority 3 individual project bids, and those submitted under the CPP bids. This twin tracking is understandable, particularly for smaller organisations in the voluntary sector, since it was evident that not all of the 13 CPP bids would be successful.
- 11.2** Once the decisions are arrived at in regard to the CPP bids it will be necessary to determine where integral elements of the respective CPP bids have a separate and duplicate bid in either ESF Priority 1 or ERDF Priority 3. This will create a delay in the issuing of formal approvals but is an essential step to



ensure that we do not fund activity more than once.

12. Programme Implementation and Commitment

12.1 Historically, Programme spend has invariably lagged considerably behind Programme commitment for a variety of reasons including delays in securing all financing, changing market conditions, unforeseen technical requirements or more fundamentally over-ambitious or flawed market intelligence. This has caused considerable difficulties in managing Programme spend, achieving the annual N+2 financial spend target, and ultimately maximizing the Structural Funds draw down at Programme closure. Accordingly, full spend and draw down of EU Structural funds has never been achieved and the shortfall has remained unclaimed. Spend levels have never achieved much above 90%.

12.2 With the significant reduction in available funds under the new Programmes and the high level of demand under certain Priorities, there is a powerful rationale to achieve a significant level of commitment early on in the new Programmes life cycle. This would have the effect of building and banking a higher level of expenditure in the first 2-3 years of the Programmes. This level of commitment monitored will be managed closely, so that any unreasonable and unjustified delays in claiming against expenditure incurred will be identified quickly and should result in decommitment of part or all of the award. Thus monies are likely to be recovered and redistributed to new project submissions or approved projects which are performing successfully. This more stringent stewardship is likely to generate greater benefits, not only in terms of achieving maximum expenditure levels and achievement of N+2, but also greater achievement against Programme targets.

13. Recommendations

13.1 The Committee is invited to note the background policy and operational context in which they should consider the various recommendations on funding in this first approval round.

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