

EAST OF SCOTLAND OBJECTIVE 2
PROGRAMME 2000 - 2006

ANNUAL IMPLEMENTATION REPORT 2001



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EAST OF SCOTLAND OBJECTIVE 2 PROGRAMME 2000 - 2006**ANNUAL IMPLEMENTATION REPORT 2001****TABLE OF CONTENTS**

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CHAPTER 1: INTRODUCTION

1.1 Introduction to Programme

Following a transitional year in 2000 between the old and the new Structural Fund Programmes, the year 2001 represented the first year of full activity for the East of Scotland Objective 2 Programme 2000 - 2006. During the year, the first project commitments were made and partners in the region began to focus on delivering the agreed programme. In addition to developing and refining the implementation arrangements for the new programme, there was considerable business undertaken associated with the ongoing monitoring of the 1997 - 1999 Objective 2 Programme, 1994 - 1999 Objective 5b Programmes and the Community Initiatives.

The East of Scotland 2000 - 2006 Objective 2 Programme Document was submitted to the European Commission on 28 April 2000 and was formally approved on 23 March 2001. The Commission's approval reference for the Programme is CCI 2000 GB 162 DO 012. The present East of Scotland Programme Area (ESPA) is not a coherent territorial or administrative unit, but rather a dislocated region containing six sub-regional groups of local administrative areas, each with its own economic strengths, relationships and traditions. These sub-regions are in Forth Valley, the Lothians, Central and West Fife, the Lower Tay, the Moray and Buchan Coast and the Grampian Uplands. The total population of the Programme Area is approximately 1.26 million people, of which 560,000 are located in eligible areas and 700,000 are located in transition areas.

The approved Programme Document covers the period from 1 January 2000 to 31 December 2006 and has a total ERDF allocation of 250.54 MEURO. This is split between eligible and transition areas as follows:

Eligible	168.46 MEURO
Transition	82.080 MEURO

The agreed financial tables are attached for information as **Annex 1**.

1.2 Summary of Progress to Date

This Annual Implementation Report for 2001 concentrates on the main partnership activities undertaken during the year. This includes a full analysis of programme implementation to date, identification of the major changes in conditions (including policy changes and socio-economic trends) and the key steps taken in the East of Scotland to ensure compatibility with Community policies and to ensure co-ordination of all Community assistance.

In summary, the East of Scotland Objective 2 Programme had committed nearly **28%** of all available funds by the end of 2001. Overall, this represents a reasonable level of commitment, although the performance is mixed across the different Programme measures.

A full analysis is included in Chapter 3. It is clear though that many schemes are now fully operational and are beginning to deliver support and assistance across the region to a wide range of businesses, communities and organisations.

Positive forecasts have already been generated, especially under Priorities 1 and 2, but it is not yet possible to fully analyse actual progress to date due to the limited number of investments which are complete and the long lead-in times for many business assistance schemes. However, the level of expenditure recorded in the Programme is seriously 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 2002.

The accompanying Annual Review Document sets out implementation issues and conclusions on how best to remedy current problems in more detail. These include the need to focus on funding investments that leave a legacy, are generative and sustainable.

CHAPTER 2: CHANGE IN GENERAL CONDITIONS

2.1 Policy Context

The 2000 AIR detailed the policies that provide the framework for the operation of the Structural Funds in the East of Scotland. This section provides an update on new policies and those that have been further developed in 2001. It is evident from the policy framework that the European Structural Funds contribute to a range of mechanisms undertaken by public, community and private bodies which support economic, social and environmental development in the region.

2.1.1 Policy Developments relating to Structural Fund Programmes

The 'Programme for Government II - Working together for Scotland'¹, 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 2001 reflects these aims.

2.1.2 The Scottish Parliament

The Scottish Parliament continued to take an active interest in the implementation of Structural Funds in Scotland. On 5th April 2001 the Parliament held a Structural Funds debate with the following motion; the Parliament "recognises the success of the Executive's strategic approach and decentralised administration in managing European Structural Funds in underpinning its commitment to key policy priorities; in particular education, jobs and transport, and endorses the continuation of this approach to ensure a sustainable impact from this funding". The Parliament agreed the motion and a note of the debate can be found on the website.²

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

²Scottish Parliament Official Report is at: http://www.scottish.parliament.uk/official_report/session-02/sor0124-02.htm#Col5778

The European Committee continued its important role of scrutinising the administration, management and delivery of the European Structural Funds. On 6 February 2001 the European Committee published their 'Initial Report on the application and project appraisal process for European Structural Funds (1st round of the 2000-2006 period)'.³ The European Committee was also represented on and considered the papers for the Scottish European Structural Funds Forum (SESFF).

2.1.3 Review of the Programme Management Executives (PMEs)

The Report on the Review of the Programme Management Executives (March 2000) highlighted streamlining, accountability, transparency and regular review with the aim of maximising the outcomes of the new Programmes to ensure they leave a lasting legacy for Scotland.⁴ During the course of 2001 the recommendations of the Report continued to be implemented. In particular, using an effective business planning process for the PMEs, the provision of case studies for the PMEs and a Scotland wide annual review of the implementation of the Programmes as a whole involving the Scottish European Structural Funds Forum and the European Committee of the Scottish Parliament.

In line with the Report's recommendations aiming to develop a streamlined and transparent process for delivering the new Programmes the Scottish Executive issued an Evaluation Strategy on 26 January 2001.⁵ The evaluation strategy brings together all the regulatory and domestic requirements for the evaluation of the 2000 - 2006 round of Structural Funds programmes, providing both a framework and a context for evaluation activities.

The Scottish European Structural Funds Forum continued to oversee the implementation of the Scottish Programmes at a strategic level informed by the work of the Scottish Co-ordination Team (SCT). The SESFF met twice in 2001 (June and November) and considered issues such as; the impact of enlargement on future Structural Funds receipts in Scotland, transition strategies and the Minister's policy statement, in addition to their role in considering the Annual Implementation Report for 2000.

2.1.4 Policy Statement of Scottish Minister for Finance and Local Government

In August 2001 the Scottish Minister for Finance and Local Government, Angus MacKay, issued a policy statement to provide strategic guidance on the implementation of the current Structural Funds Programmes in Scotland. The Structural Funds policy statement considers the necessary steps to achieve the key objectives outlined in the Scottish Executive policy statement "Working

³The full report is at: http://www.scottish.parliament.uk/official_report/cttee/europe-01/eur01-01-01.htm

⁴The full report is at: <http://www.scotland.gov.uk/library2/doc12/rpme-00.asp>

⁵This can be found at: <http://www.scotland.gov.uk/esf/evalstrat-00.asp>

Together for Scotland',⁶ both at strategic and programme specific levels. The statement was disseminated to the partners and the PME's and focused on the following areas:

- the need to further integrate Structural Funds policies with existing Scottish Executive and area based strategies;
- the need to further integrate the horizontal themes into the Programmes;
- the need to emphasise the assessment of past performance in project appraisal;
- a greater synergy to be achieved between the Objective 2 and 3 Programmes;
- streamlining in conjunction with the new IT system;
- the need to use monitoring and evaluation as a management tool, in the appraisal and programming process; and,
- the need to maximise leverage with the private sector and to find other funding sources, such as the European Investment Bank, to ensure the long-term impact of projects.

Work in many of the areas highlighted in the Policy Statement which aim to improve the efficiency and effectiveness of projects as recommended in the Report were furthered during 2001. Work on the establishment of a streamlined IT system was ongoing and will be progressed in 2002.

2.1.5 Scottish Executive Policy Developments

Introduction

Throughout the year 2001, wider Scottish Executive enterprise, social justice and ICT policy initiatives had an influence on the shape of the Structural Funds Programmes in Scotland. The following documents provided a framework for the overall policy agenda:

- Working together for Scotland Programme for Government II (January 2001)⁷
- 'A Smart, Successful Scotland' (January 2001)⁸
- Connecting Scotland - Our Broadband Future (September 2001)⁹

⁶This can be found at: <http://www.scotland.gov.uk/library3/government/pfg-05.asp>

⁷This can be found at: <http://www.scotland.gov.uk/library3/government/pfg-05.asp>

⁸This can be found at: <http://www.scotland.gov.uk/library3/enterprise/sss-00.asp>

⁹This can be found at: <http://www.scotland.gov.uk/digitalscotland/csbc/csbc-01.asp>

- Digital Inclusion Strategy (September 2001)¹⁰
- A Global Connections Strategy (October 2001)¹¹
- Community Scotland Corporate Plan (November 2001)¹²
- Social Justice Action Note (November 2001)¹³

The following areas of key policy change in 2000 were developed further in 2001:

- area-based strategies;
- strategy for enterprise;
- social justice; and,
- the skills agenda

Area-Based Strategies

The Scottish Executive developed policies on spatially targeted regeneration, which impact on European Structural Funds Programmes. These initiatives tackled regeneration from two angles; area specific economic planning and social inclusion.

The Scottish Executive issued National Guidelines on the setting up of Local Economic Forums on 7 March 2001.¹⁴ A Ministerial Community Planning Taskforce played a key role in overseeing the implementation of these Forums. The Forums aim to deliver a more cohesive structure in economic development, by considering local needs within a national framework and aligning activities with the pursuit of these local needs. The initial priority for each Forum was to address overlap and duplication in the provision of business services.

The network of 47 SIPs continued to tackle disadvantage in particularly vulnerable groups. These included “excluded” young people, children in care, young people leaving care, and young carers. Equal Opportunities, particularly the promotion of opportunities for those from ethnic minorities, was a theme addressed by a number of thematic SIP Programmes. The majority of SIPs were, however, area based and tackled social exclusion in disadvantaged communities and geographical areas.

¹⁰This can be found at: <http://www.scotland.gov.uk/library3/enterprise/dics-00.asp>

¹¹This can be found at: <http://www.scotland.gov.uk/library3/enterprise/agcs-00.asp>

¹²This can be found at:

<http://www.communitiesscotland.gov.uk/communities/upload/CORPORATE%20PLAN%20-%2015.1.02.pdf>

¹³Social Justice Action Note: <http://www.scotland.gov.uk/library3/social/sjn3-00.asp>

¹⁴This can be found at http://www.scotland.gov.uk/library3/enterprise/lef_guide_final.pdf

Strategy for Enterprise

'A Smart Successful Scotland'¹⁵ the Scottish Executive's strategy for the Enterprise Networks was published on 30th January 2001. This is the first comprehensive policy statement on Enterprise Networks clarifying their focus and their relationship with the Scottish Executive. The Strategy sets out the foundation for sustained improvement in economic performance in Scotland focusing the Enterprise Networks on three key challenges for raising productivity, encouraging entrepreneurship, raising skill levels and connecting Scotland globally.

A further global connections strategy was promised to build on the third of these aims outlined in 'A Smart Successful Scotland' and on 4 October 2001 the Enterprise Minister launched 'Scotland: a global connections strategy.'¹⁶ Linked to Digital Scotland (the Scottish Executive cross-cutting initiative launched in 1999) this strategy aims to make Scotland the most networked small nation in Europe. A new organisation Scottish Development International, a Scottish Executive and Scottish Enterprise partnership, was put in place to spearhead the drive to promote the country as a key place for Europe to do business.

Strategy for Social Justice

The Scottish Executive followed in 2001 the overall policy priorities in the document 'Working together for Scotland Programme for Government II'. The social justice agenda had been developed firstly through the Social Inclusion Strategy, launched in March 2000, and then through the 'Social Justice...a Scotland where EVERYONE Matters' report in June 2000.¹⁷

The report established priorities; empowering communities to make decisions and influence others, building skills and confidence, providing the right services and products and preventing a growing digital divide. The report placed emphasis on supporting the Social Inclusion Partnerships (SIPs) in the regeneration of Scotland's most deprived neighbourhoods, tackling the subject of child poverty in partnership with the UK Government, working to regenerate the most disadvantaged communities to ensure that decent affordable housing is available to everyone and promoting equality of opportunity and community development. These issues coincided with the aims of the European Structural Funds, which were designed to improve the economic and social cohesion of the targeted regions.¹⁸

¹⁵This can be found at: <http://www.scotland.gov.uk/library3/enterprise/sss-00.asp>

¹⁶This can be found at: <http://www.scotland.gov.uk/pages/news/2001/10/SE4174.aspx>

¹⁷This report can be found at: <http://www.scotland.gov.uk/library2/doc07/sjmd-01.htm>

¹⁸A text on the role of European Structural Funds in Social Inclusion Area Strategies can be found at: <http://www.scotland.gov.uk/library2/doc14/sias-00.asp>

A summary report of the National Evaluation of the former Regeneration Programmes (now SIPs) was published in September 2001.¹⁹ This report highlighted the positive and negative aspects of their work as well as making recommendations for the way ahead. The report identified that local partnerships needed time to establish themselves and to develop a more co-ordinated approach, and for this reason some SIP Programme Areas were extended in March 2001 to run until 2004.

A 'bottom up' approach, to give clear roles and responsibilities to partners and engage them in strategy implementation is being adopted and was outlined in a Social Justice Action Note issued by the Scottish Executive in November 2001.²⁰ It states that the 'Scottish Executive wants an open, just Scotland. This cannot be achieved while there is prejudice and discrimination, poverty and alienation and while many people in Scotland's communities are disempowered.'

The report stated that there were positive signs that European Union funding was being used to good effect, especially as match funding for thematic initiatives being undertaken across wider areas than the SIP areas themselves. Since this report there has been a shift towards holistic, local authority-wide strategies to deliver social justice within the context of the Community Planning process in each area.

'Communities Scotland'²¹, the successor agency to Scottish Homes, was established on 1 November 2001. It comprises the former Scottish Executive Area Regeneration Division, and adopts the function of Community Learning Scotland. The Agency has three key responsibilities: housing, community regeneration, and the regulation of almost 300 social landlords covering 700,000 households – one third of all families in Scotland. By combining housing and community regeneration the Agency aims to make Scotland's communities more sustainable and attractive places to live.

The 'Digital Inclusion Strategy'²² launched in September 2001 will take forward ICT provision and training for disadvantaged communities by more than doubling public access points to the Internet. European Structural Funds and the SIPs work in synergy with this policy, co-financing the infrastructure and training needed to bridge the digital divide. The Scottish Executive published 'Connecting Scotland – Our Broadband Future'²³ which will enable the provision of cheap, reliable access to ICT. The provision of public services and education, regardless of location or social standing are implicit in this strategy.

¹⁹Summary Report on Evaluation of the former RPs is available at <http://www.scotland.gov.uk/cru/kd01/blue/nefr.pdf>

²⁰Social Justice Action Note: <http://www.scotland.gov.uk/library3/social/sjn3-00.asp>

²¹Communities Scotland Website: <http://www.scotland.gov.uk/pages/news/2001/11/SE4259.aspx>

²²This can be found at: <http://www.scotland.gov.uk/digitalscotland/csbc/csbc-01.asp>

²³This can be found at: <http://www.scotland.gov.uk/digitalscotland/csbc/csbc-01.asp>

The Skills Agenda

The major policy document relating to the skills agenda was 'Skills for Scotland: A Skills Strategy for a Competitive Scotland' published in March 1999 for consultation²⁴ laid the groundwork for policy initiatives in 2001 which built on work already underway in 2000.

The Scottish Labour Market Intelligence Unit was enhanced and renamed in 2001 becoming 'Future Skills Scotland.' The unit has the key role of making sure that business, education and training organisations have the data needed to allow every Scot to be ready for tomorrow's jobs.

On 17 January 2001 *'learndirect scotland'*²⁵ was formally launched. The Scottish University for Industry, brand name- *learndirect scotland*, aims to help Scots enhance their skills and employability and Scottish companies improve their competitiveness by embracing lifelong learning.

The increased focus on youth work and adult numeracy and literacy which began in 2000 with the establishment of the Adult Literacy 2000 Team continued in 2001 with the transference of Community Learning Scotland to Communities Scotland and Youthlink Scotland.

2.1.6 Horizontal Themes

Introduction

The mainstreaming of both Sustainable Development and Equal Opportunities were priorities for European Structural Fund Programmes in Scotland in 2001 in line with Scottish Executive initiatives and European Commission guidelines. This mainstreaming approach goes beyond the basic requirements of the programmes.

Sustainable Development

The Scottish Executive has continued to be committed to sustainable development as a policy priority underpinning its overall policies and programmes in the environmental as well as economic and social areas. The Executive has defined sustainable development as being about making decisions with a full understanding of the implications for economic growth, social justice and the environment; and taking a long-term view.

²⁴This report can be found at: <http://www.scotland.gov.uk/library/documents-w7/sfs-00.htm>

²⁵Learndirect Scotland at <http://www.learndirectscotland.com/>

The Sustainable Development Forum, a sub group of the Scottish Co-ordination Team, whose remit is to investigate ways of mainstreaming sustainable development into European Structural Funds Programmes in Scotland met on four occasions in 2001. The Group focused on the following issues:

- the identification of a national resource for sustainable development that would be focused primarily on strategic training and policy development issues. This resource would be wholly funded by Scottish National Heritage and the Scottish Environmental Protection Agency;
- in order to assist SMEs and partners in the integration/mainstreaming of sustainable development, the provision of part funding for staff dedicated to sustainable development issues in SMEs or for acquiring external expertise. This resource would be available on a flexible basis, in response to the requirements of partnerships;
- reviewing the experience of the first round of applications and the attention paid to sustainable development;
- sharing knowledge and experience of sustainable development. Promoting good practice providing guidance where necessary and increasing understanding of sustainable development;
- forging links with other bodies promoting the development of the horizontal themes;
- ensuring sustainable development would be part of the innovative actions programme;
- looking at ways of embedding sustainable development into projects;
- keeping abreast of any initiatives emanating from the Equal Opportunities Forum;
- consideration of horizontal themes scoring mechanisms;
- SMEs holding workshops to promote the horizontal themes with partner applicants and advisory groups; and,
- links to the Nordrhein Westfalen Project.

Equal Opportunities

The Equal Opportunities Forum, a sub committee of the Scottish Co-ordination Team was established in 2000. Its remit is to consider and advise on the mainstreaming of equal opportunities across the Structural Funds Programmes. The Forum met twice in 2001 and discussed issues including training and development equal opportunities issues; the possibilities offered by the EQUAL programme for mainstreaming across the Structural Funds Programmes; accessibility of programme documentation; and the plans for the development of an equal opportunities toolkit for those involved in project delivery.

The Scottish Executive's Equality Strategy published in November 2000,²⁶ both complements and enhances the requirement to mainstream Equal Opportunities within the current European Structural Funds Programmes in Scotland.

2.2 Regional Socio-economic Trends

2.2.1 Introduction

This section investigates the major economic changes and events to affect Scotland over the year 2001. In particular, it will concentrate on those aspects that affect the East of Scotland region. It has been broken down under three main headings, looking at the major socio-economic events affecting Scotland, what statistics can show is happening during the year, and finally focusing on the major employment sectors and how they have been impacted.

2001 was a notable year for Scotland, including the East of Scotland region. A series of major economic shocks hit the country, causing significant changes to take place. The first, and possibly most damaging, was the Foot and Mouth epidemic. The disease, which affects farm livestock, spread rapidly through much of the UK, including the southern regions of Scotland. Although, harmless to humans, eradicating the disease was only possible by widespread slaughtering of farm livestock combined with stringent restrictions on movement in rural areas. The economic, as well as social, disruption to the agricultural sector was great. However, the greatest affect of disease on the East of Scotland was the way it impacted other industries, particularly tourism. As well as Foot and Mouth, Scotland felt the effects of both the terrorist attack of 11th September and the global economic downturn. These affected consumer demand, especially demand from overseas for Scottish exports. The manufacturing sector was hit significantly, and still continues to falter. Falling foreign visitor numbers, principally from the US, hit tourism again.

²⁶The strategy can be found at: <http://www.scotland.gov.uk/library3/social/wtem-00.asp>

The East of Scotland Structural Funds area covers a large proportion of eastern Scotland, from parts of Moray and Aberdeenshire in the north, down to the Lothian regions surrounding Scotland's capital city of Edinburgh. The funded region encompasses 13 unitary authorities in total, although only five of the authorities are fully covered, the rest having only partial coverage within the Objective 2 funding area.

Technical note: As noted above, the East of Scotland Programme Area is formed from an amalgamation of full and part unitary authorities. Currently there is no up to date statistical data collected for the whole of the East of Scotland Structural Funds Area. Most regional data is collected at a unitary authority level. In an attempt to resolve this issue, a data set of information has been built up by amalgamating the relevant available unitary authority data. However to do this it has been necessary to include information from those parts of the authorities that fall outside the East of Scotland Structural Funds Area. Information about the two electoral wards within the City of Edinburgh that qualify for funding has also excluded from the data set, as including the whole of Edinburgh would skew the data set significantly.

Allowing for these anomalies, the East of Scotland regional data quoted in this socio-economic section still covers 282 of the 284 electoral wards that make up the East of Scotland Structural Funds Area. However it also includes an additional 83 non-eligible wards. Accepting that this set of information is not perfect, it is nevertheless felt that giving some background understanding to the region and how it compares to the rest of Scotland is still useful.

Also and importantly, much of the data reproduced here and used in the overall analysis refers to the four quarters to end September 2001. This is the most up to date available and reliable statistical information.

2.2.2 Major Socio-Economic Events over the Year

Foot and Mouth Disease (FMD)

Foot and Mouth disease (FMD) is a virulent disease that affects cloven-hoof animals. Although rarely fatal it is highly infectious and without extreme restrictions spreads rapidly through the farming community. In February 2001, the United Kingdom experienced its first mainland case since 1967. The outbreak rapidly spread throughout much of Britain, with the first case in Scotland being discovered on the 1st March. The Government instigated a strict culling policy combined with tight restrictions on both animal and human movement in the countryside. Eventually these controls paid off with the last confirmed case occurring in Britain on the 30th September 2001. In total more than 2,000 separate incidents of FMD were confirmed in the United Kingdom. Over 10,000 farms had their livestock culled as a result of the government's

policy, mostly as a precaution. In excess of 4 million animals were slaughtered in total.

In comparison to England, the Scottish outbreak was relatively limited. However there was still extensive disruption and the disease caused a substantial amount of social and economic hardship. The first case in Scotland was discovered on 1 March 2001 with the last Scottish case confirmed on the 30th May and the country was declared disease free on the 11th September. Confirmed cases of FMD were limited to the two most southerly regions of Borders, and Dumfries and Galloway.

Although in Scotland the disease was confined to the southern borders, the impact was felt throughout the country. The enforcement of precautionary measures such as export bans and other movement restrictions affected the whole agricultural sector. This, combined with changing consumer attitudes, had a significant effect on market prices. Scottish agricultural producers are estimated to have lost £60m in income, with another £25m lost to downstream-related businesses.²⁷

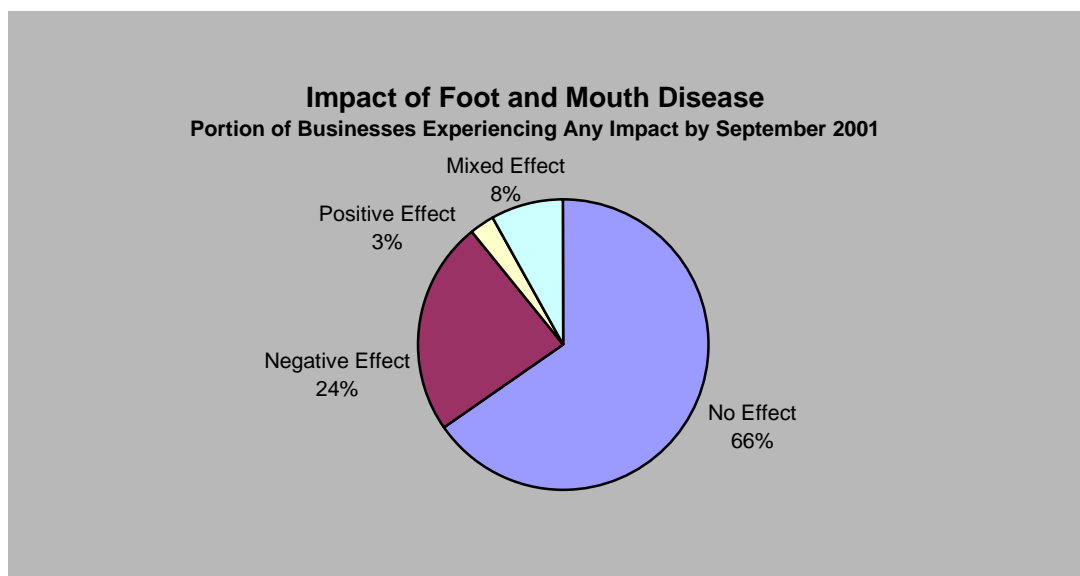
The impact was not just restricted to the agricultural sector, with a broad range of businesses also being affected. By far the largest, and most costly economically, has been the impact on Scottish tourism. Tourist numbers were dramatically reduced as holidaymakers chose to stay away from the Scottish countryside. VisitScotland, the Scottish tourist agency, has estimated that for 2001 the effect of FMD has cost the industry approximately £250m. This is made up of a loss of £200m from domestic tourism and £50m from overseas visitors.

Scottish Executive Business Impact Survey

During 2001, the Scottish Executive commissioned a series of surveys to evaluate the impact of FMD on Scotland. The last report²⁸ from October 2001 concluded that 66% of all businesses felt no impact from the disease, against 24% who felt negative impacts. However, the negative impact was greatest in the regions that experienced the epidemic first hand and in those neighbouring areas that were classified as potentially 'at risk'. The chart below highlights the results of the survey.

²⁷The Costs of the FMD Outbreak', DEFRA & DCMS Report, March 2002.

²⁸Foot and Mouth disease Business Impact Tracking Survey Scotland, September 2001, Third Wave' Report, The Scottish executive Central Research unit, September 2001.



(Figures from 'Foot and Mouth disease Business Impact Tracking Survey Scotland, September 2001, Third Wave' Report, Published by The Scottish executive Central Research unit, September 2001.)

The proportion of businesses that acknowledged a negative impact was affected by the nature of the business. Amongst respondents from the tourist industry, 66% reported either negative or mixed effects from the epidemic (50% negative, 17% mixed). Transport, manufacturing and the retail sectors also reported higher than average levels of negative impact.

Main effects on Scottish Business

By far the largest effect of the epidemic was the loss of sales revenue. Other notable effects included loss of future bookings, increased costs and reductions in staffing levels. The table below notes the Impact survey's main findings.

Ways in which Firms have been affected by FMD

	All Firms	Firms reporting an effect
	%	%
Loss of Sales	11	76
Loss of Future Bookings	4	30
Increased Costs	3	20
Reduced Staffing Levels	2	11
Increased Sales	1	8
Increased Future Bookings	-	1
Reduced Costs	-	1
Increased Staffing Levels	-	1

(Figures from 'Foot and Mouth disease Business Impact Tracking Survey Scotland, September 2001, Third Wave' Report, Published by The Scottish executive Central Research unit, September 2001.)

Financial costs of Foot and Mouth

The Scottish Executive Impact survey attempted to quantify the total loss of revenue for companies affected by Foot and Mouth. The table below summarises the findings.

Mean Loss due to FMD, to Firms Effected by the Disease			
	£	€	% of Total Annual Sales
Overall	36,757	58,811	25%
By Sector			
Tourism	19,440	31,104	31%
Transport	164,390	263,024	12%
Manufacturing	47,900	76,640	28%
Retail	30,875	49,400	26%
Other Services	16,054	25,686	22%
Other (exc. agriculture.)	6,365	10,184	31%

(Figures from 'Foot and Mouth disease Business Impact Tracking Survey Scotland, September 2001, Third Wave' Report, Published by The Scottish executive Central Research unit, September 2001. Respondents had option to reply to survey by quoting mean loss in £ total or as % of sales. Accordingly, £ and % loss figures may not correlate fully. Survey response = 141, 53 reply quoting £, 88 quoting % loss. Exchange rate set at €1.60 = £1)

The average cost to individual businesses varies widely from sector to sector. Although tourist companies have experienced a relatively low loss in total sales per business, it has accounted for a large proportion of annual income. This is explained by the small size of many tourist concerns, often small bed and breakfast hotels or restaurants, with only a few staff. In contrast, the transport industry seems to have been hit very badly, with average lost revenue estimated, per firm, at over a quarter of a million Euros. However, because of the far higher average incomes in the transport sector, the relative impact is less than for many other business concerns.

There was a small but noticeable difference between the effects of FMD on businesses within the 'at risk' or 'infected' zone and those in the officially 'FMD free' areas. Generally, the cities of Edinburgh and Glasgow and those regions to their north escaped the worst of FMD and were classified 'risk free' for most of the epidemic. However, the authorities of Lothian and Falkirk, which lie within the East of Scotland region, were classified as 'at risk' due to their proximity to the infected south. The 'risk free' areas reported a slightly lower percentage loss in income of 24%, on average amongst those firms noting an impact, compared to 26% for the 'infected/at risk' areas. However, the affected firms tended to be larger and, accordingly, the actual net cost per firm were greater. In the provisionally 'risk free' north, average losses for impacted firms were £38,671 (€61,871) against £34,569 (€55,310) in the 'Infected/at risk' south.

Employment Impacts

The Scottish Executive survey implies that 2% of firms in Scotland believe that their staffing levels were reduced due to foot and mouth disease. Of the companies who claimed to lose staff, 37% believed that the reduction in staffing would be a permanent consequence. Another 42% believed that the staff reduction would only be temporary, while 21% were unsure.

The average fall in employment per firm varied, depending on the type of company, with some firms even noting an increase in staffing. However, in no sector did the reported gains in staff come close to the reported losses. The most extreme effect on staffing was amongst the tourism and other non-retail services. In these sectors the average reported permanent staff reduction were 2.4 and 2.2 employees per company. However it should be noted that within the East of Scotland area, aggregate employment levels changed little over the year. Any major negative effect on employment due to FMD seems to have been countered by increased employment elsewhere within the region.

Impact of the Terrorist Attack of 11th September

The terrorist attack on New York's World Trade Centre has had repercussions throughout the world. As well as the personal loss of life there have been powerful economic, political and social effects. American attitudes to safety and foreign travel have been changed significantly, as have those of other countries. Short-term effects have included a rapid decline in the travel sector and tourism as well as economic effects, such as the fluctuating world oil prices. However, it is the long-term impacts that are of most concern.

It is too soon to accurately ascertain the full impact of 11th September on Scotland. Little hard data is available. It is also difficult to distinguish between effects due to the already present global economic downturn, and those directly due to the terrorist attack. In many ways, the attack should be seen as deepening the global slowdown, worsening its effect and delaying the date when forecasters see the world economies beginning to pick up again.

Economic forecasts for both the United Kingdom and the US significantly declined after 11th September, and this has been paralleled by immediate falls in business and consumer confidence. However, since then governments world-wide have responded by cutting interest rates and increasing spending in a concerted attempt to boost the economy. These activities will hopefully feed through over the next year, allaying fears of a long-term recession. Already, stock market prices have recovered to pre-11th September levels and confidence levels are rising.

Scottish Development International has also noted that the level of enquiries relating to foreign investment in Scotland has declined to below the normal level for recent years. This implies a possible fall in international investment in Scotland. One reason for this seems to be the ongoing reluctance of US nationals to undertake international air travel.

Tourism

As stated earlier, one major employment sector that has been clearly affected by the terrorist attacks, rather than the general global slowdown, is the Scottish tourist industry. The greatest negative effect has been the loss of US visitors to Scotland. In the immediate aftermath of the attack companies dealing with North American visitors experienced cancellation rates of between 20-60%. The Scottish Executive, working with VisitScotland, has estimated that the loss of North American visitors during the remainder of 2001 will cost Scotland £54m. However, this should be offset by spending of up to £40m by additional visitors mainly from elsewhere in the UK who have decided to visit Scotland rather than go to the USA.²⁹ The initial negative effect is also lower than it might have been, due to the tourist season being largely finished by September. It is harder to calculate the long term effects on tourism, although it is likely that US visitor numbers will stay below average for a long time. VisitScotland has surveyed tourist businesses and found that 20% expect the terrorist attack to have a serious effect on their business during 2002.³⁰ The loss of US tourists will particularly hit the high quality end of the tourist industry as well as the golfing sector which is especially important in the East of Scotland, where up to 80% of income can be from North American visitors.

Aviation

Global demand for air travel has fallen significantly since the 11th September and it is possible that passenger numbers could remain depressed for some time, possibly even up to 2003. However, recent figures from BAA reveal passenger numbers at Scotland's three main airports (Edinburgh, Glasgow and Aberdeen) have been bucking the global trend, although this may be partially due to problems within the rail network during 2001.

Throughout the world, companies in the aviation sector have announced tens of thousands of redundancies in the wake of the terrorist attacks. This is partly a direct result of the attacks, but also reflecting a longer term restructuring process within the industry. British Airways, ScotAirways, GO and Icelandic Air have all announced cancelled or reduced international services from Scottish Airports. The slump in aviation demand has led to redundancies in the aeronautics industry. GE Caledonian, one of the world's leading aero-repair and engine overhaul companies, announced 170 job losses at Prestwick since September.

²⁹The Impact of the Terrorist Attacks on the Scottish Economy, An Update' Scottish Executive, January 2002.

³⁰The Impact of the Terrorist Attacks on the Scottish Economy, An Update' Scottish Executive, January 2002.

BAE Systems has announced 219 redundancies at Prestwick. Rolls Royce, following a thorough review of its business in light of the post-attack slump in aviation demand, has also announced 410 redundancies in November at Hillington and 40 at East Kilbride. Support services such as Grampian Country Foods in Edinburgh, who supply airline meals, has also reported redundancies because of the reduction in demand.

Global Economic Slowdown

The year 2001 has highlighted how integrated the Scottish economy has become within the global economy. Having been a beneficiary of global growth for many years, the global economic slowdown that took root in the early months has had a significant dampening effect on the Scottish economy.

Scotland engages in a significant amount of trade, both with the rest of the UK and with the rest of the World. The Scottish Council for Development and Industry estimate that only 20% of products made in Scotland stay within our borders. Around 30% of Scottish sales involve the rest of the United Kingdom and the remaining 50% are exported overseas.³¹ As a result, the economic developments taking place in the UK, European and the other global economies have a crucial impact on Scotland's economic development.

On the global stage, the behaviour of the US is key to judging world activity. Until mid 2000, the US economy seemed to still be growing strongly. However, the situation started to slow from then on and since half way through 2001 the US economy has been officially contracting. The shrinking US economy has resulted in a reduced demand for imported goods and services, which has in turn affected Scotland and the rest of the world.

As less than a 16% of Scotland's non-UK exports go to the US, the direct impact of the US recession has been limited. However, it is the indirect knock-on effect on other country's economies that has been most notable. Fortunately, the UK has borne up relatively well overall, with the economy predicted to have grown at over 2% during 2001. However European growth rates fell heavily during the year, especially Germany which has suffered from rising unemployment combined with only marginal economic growth. The world's second major economic powerhouse, Japan, continued to falter last year, with an end to its recession still not in sight.

Manufacturing Exports and the European Union

One primary effect of the global slowdown has been the sharp reduction in the level of trade between countries. This is particularly acute in the luxury and technology sectors as consumers, fearful of the future, initially cut back on non-

³¹Survey of Scottish Sales and Exports in 2000', Scottish Council for Development and Industry, December 2001

essential goods and services. The weakening of demand from the European Union is of particular concern with over half of Scottish exports being to this market. The vast majority of Scottish exports are manufacturing based and it is within this sector that Scotland has felt the brunt of the world economic slowdown. The latest data available shows that for the first three-quarters of 2001 manufacturing exports fell consistently quarter on quarter, falling 5% from June to September alone.³² The most visible effect on Scottish manufacturing during 2001 was the closure of Motorola's electronics factory in Bathgate last July, at a cost of 3,100 jobs.

Falling Overseas Investment

The other main effect of a globally stagnant economy is a fall in investment levels. The Scottish economy is highly reliant on foreign capital, with around 33% of the annual investment in Scottish industry coming from foreign owned companies. With a stagnant world demand for goods and falling stock market valuations for many companies, international investment has declined. Although exact figures for Scotland are not known, independent analysts have forecast that the total world foreign direct investment inflows will have fallen by 30%, and by up to 50% with the European Union.³³

2.2.3 National and Regional Economic Statistics

Population

Overall, Scotland's population has changed little in recent years and it is expected to continue with a roughly level population in the foreseeable future. By 2016 the total population is expected to fall by only **-1%**. However, this masks a dynamically changing environment with large-scale regional shifts of population, particularly towards the relatively prosperous central regions surrounding the capital city of Edinburgh.³⁴

Scotland is also an ageing country, with a marked predicted increase in the retired community and a proportional decline in those of school age. Although the working age population is only expected to decline on average by **-3%** over the next 15 years, this again hides a wide variation between regions. The table below highlights the expected changes within the region.³⁵

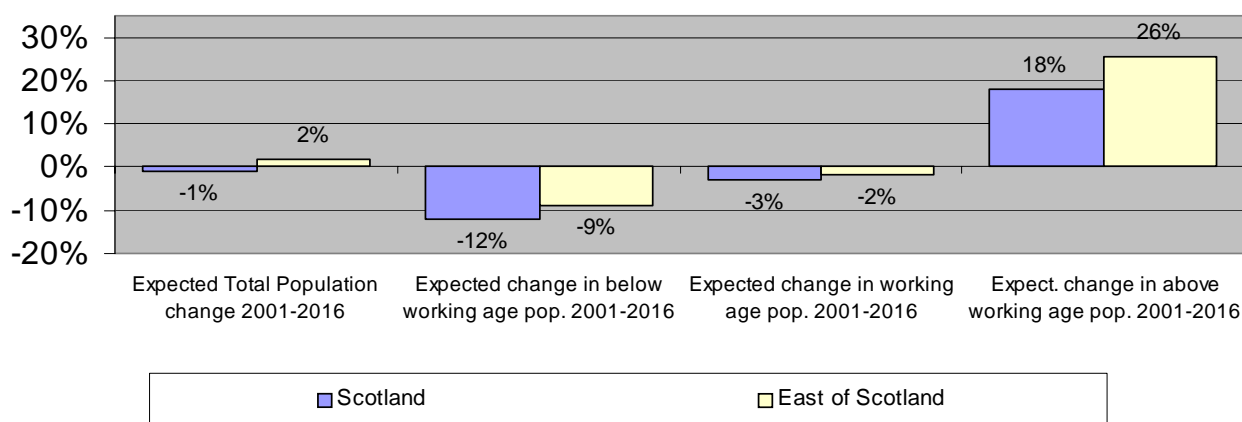
³²Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

³³'Scottish Economic Report', Scottish Executive, January 2002.

³⁴Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

³⁵Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

Expected Change in Population Age, Scotland vs. East of Scotland



The East of Scotland region is, to a degree, bucking the trend across Scotland. It is the only large region of Scotland where overall population numbers are expected to grow in the foreseeable future. As noted before, the greatest changes are to be found in the Lothian authorities surrounding the capital city of Edinburgh, where the growth rate is expected to be between **4-12%** in the next 15 years. The one notable exception in the East of Scotland is the city of Dundee. Having lost around **9%** of its population in the last ten years, it is predicted to fall by another **-13%** by 2016, a significant long-term decline.³⁶

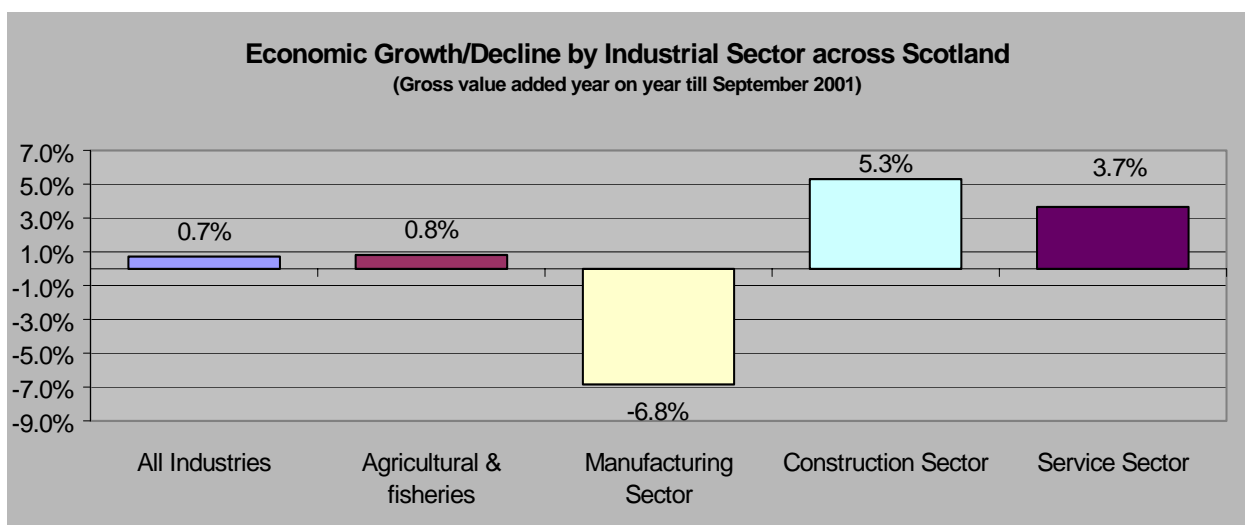
Although the East of Scotland's working age population is expected to decline at a slower rate than the rest of the nation, its retirement community is increasing rapidly. With the exception of the city of Dundee, this demographic change is being seen within every local authority in the East of Scotland region. The areas that are experiencing the greatest growth are Aberdeen and West Lothian, whose post working age populations are predicted to grow by 43% and 45% respectively by 2016.³⁷

³⁶Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

³⁷Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

Growth and GDP

The Scottish economy has grown steadily, albeit unspectacularly, since the last downturn in the early 1990's. However, recent evidence has raised concern about the short-term outlook. Official data shows that for the year to September 2001, the Scottish economy grew by **0.7%**, well below the total UK GDP growth of **2.2%**.³⁸ The limited overall growth of the economy hides two separate and contrasting components. On the one hand, the construction and service sectors have continued to grow rapidly throughout the year, whereas the production sectors have been in steep decline. The table below shows the sectoral differences within the economy.



The official figures quoted are only till the end of September 2001, so the full impact of 11th September will not yet be shown. However, it is clear that the economy began to slow down in the third quarter of the year, with data showing a decline in GDP of **-0.4%**.³⁹ On a sectoral level, the decline in the recent months is largely due to the continuing decline in manufacturing combined with the rapid stagnation of the construction sector, which had been growing steadily since early 2000.

Growth Forecasts for 2001

The Fraser of Allander Institute produces a quarterly economic commentary with forecasts for annual growth rates of the Scottish economy and its individual components. Below are their estimates for GDP growth over 2001, as taken from their December 2001 report.

³⁸ Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

³⁹ Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

Fraser of Allander Institute GDP Forecasts for 2001		
	Annual Growth Rates	2001
	Scotland	0.9%
	UK	2.2%
	Scotland by sector	
	Manufacturing	-1.9%
	Manufacturing (less Electronics)	0.0%
	Agriculture	-1.2%
	Construction	5.6%
	Services	1.3%

(Quarterly Economic Commentary, Fraser of Allander Institute, December 2001).

Although partially based on estimated data, the forecasts back up what is already being seen, with the 'two speed' economy continuing in separate directions. The forecast also highlights the effect that the world recession has had on the technology sector and Scotland's electronics industry in particular.

2.2.4 Employment and Unemployment

Unemployment Rates

During 2001, the number of people in Scotland claiming unemployment related benefits fell by **-0.2** percentage points to 4.1% of the working age population, continuing a historically low path. However, in the last quarter the decline had halted to almost a standstill. In the UK the current rate stands at 3.2%, again near recent historic lows.⁴⁰

The East of Scotland's regional unemployment level is close to the national average with an unemployment rate of 4.3%, having fallen by **-0.1** percentage points over the year. Within the East of Scotland region, there is also a high degree of variation in unemployment rates. At one end, the authorities of Clackmannanshire and Dundee have some of the highest rates of unemployment within Scotland, at 7.3% and 7.1% respectively.⁴¹ However, these rates have been declining steadily over the year. In contrast, some of the unitary authorities that only partially qualify for Objective 2 structural funding, such as Aberdeenshire and Perth & Kinross, have extremely low average unemployment rates.

⁴⁰Office of National Statistics Claimant Count figures, seasonally unadjusted, December 2001.

⁴¹Office of National Statistics Claimant Count figures, seasonally unadjusted, December 2001. East of Scotland region figures amalgamated from unitary authority ONS figures.

As well as the areas of high unemployment mentioned above, there is also concern for some regions, where unemployment has bucked the national trend and risen over the year. The East of Scotland regions of West Lothian, Falkirk and Fife have all suffered this way. One major contributing factor has been the decline of Scotland's manufacturing industry, especially the Electronics sector.

If you consider those actively seeking work, rather than just those claiming benefits, the picture is slightly less positive. The International Labour Organisation measure of unemployment, records that Scottish unemployment has risen by **0.3 %** points in the year till November 2001, standing at 6.7% of the population. This is higher than the UK equivalent rate of only 5.1%, but still clearly below the EU average of 7.8%.⁴²

National and Regional Employment Levels

The East of Scotland's overall employment activity level is good, with 81% of the working age population either in work or actively seeking employment. The northern and southern zones of the East of Scotland region were particularly strong in this respect, with high activity rates centred round Aberdeenshire/Angus and Mid/West Lothian. On the negative side, the authorities of Clackmannanshire and Stirling performed worse than the national average activity level.⁴³

Another notable area is East Lothian. Although this area's employment and unemployment levels are close to the national average, closer examination shows that the area is very highly dependent on part-time workers. In total 34% of East Lothian's employees work part-time, the highest level in Scotland, and far greater than the national average of 24%.⁴⁴

	Economic Activity			Employment Type	
	Active	Inactive		Full Time	Part Time
Scotland	78%	22%		76%	24%
East of Scotland	81%	19%		76%	24%

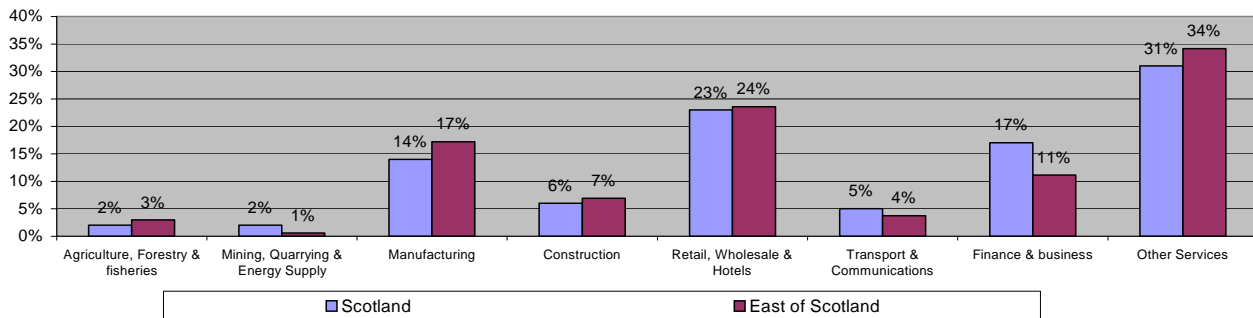
(Figures from 2001 Labour Force Survey).

⁴²Office of National Statistics ILO figures, seasonally unadjusted, September - November 2001.

⁴³Labour Force Survey, 2001.

⁴⁴Labour Force Survey, 2001.

Proportion Of Employees by Industry



(Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002. East of Scotland region figures amalgamated from unitary authority figures).

The East of Scotland region is highly reliant on the service sector for jobs, with 73% of total employment within one of the service industries. Overall, agriculture and fisheries have very little impact on employment, however they do make a significant contribution to many of the rural areas. The unitary authorities of Aberdeenshire, Angus and Perth & Kinross all have official agricultural employment levels more than twice the Scottish average. Likewise, although only 1 in 7 jobs in Scotland are in manufacturing industry, this rises to around 1 in 4 jobs in the central industrial heartlands of Scotland, such as the Falkirk and West Lothian areas.⁴⁵

2.2.5 Earnings

Average wages in Scotland are significantly below the norm for Great Britain. The gap grew during 2000-2001, with the UK national growth rate of 8.2% outstripping the Scottish rate of 5.7%.⁴⁶ The higher national rate is partially explainable by the lower UK unemployment rates. It is also expected given that the growth in Scottish GDP rates has been less than the UK equivalent for a number of years. Excluding much of the Scottish Islands, for which accurate figures are not available, regional earnings vary by a considerable degree.

The East of Scotland's average earning level is low, even by Scottish standards, with only the Stirling region having an average wage level above the Scottish norm. In contrast, the unitary authorities of Angus, Moray and Perth & Kinross all have mean wages below £360 (£575), Moray having the lowest earnings level in Scotland with an average wage of only £327.8 (£524.5). Interestingly, the low wages in these regions is not due to higher levels of regional unemployment.

⁴⁵Labour Force Survey, 2001.

⁴⁶New Earnings Survey, Office for National Statistics, April 2001.

For example, the authority of Moray has an unemployment rate of only 3%, and Perth & Kinross only 2.3%.⁴⁷

	Average Weekly Earning £ (April 2001)	Average Weekly Earning EUR (April 2001)	Av. Earning, % of GB level	% Growth 2000-20001
Great Britain	444.3	710.9	100%	8.2%
Pan Scotland	404.5	647.2	91%	5.7%
East of Scotland Region	372.2	595.6	84%	4.2%

(New Earnings Survey, Office for National Statistics, 2001, East of Scotland region figures amalgamated from unitary authority figures €1.60 = £1, Average weekly earnings figures exclude Clackmannanshire authority due to lack of accurate data.)

It is also worrying that the year on year growth of wages in the East of Scotland is lower than the Scottish or UK averages. Accordingly, the region is not catching up with the rest over time. As mentioned above, Stirling is the one exception within the East of Scotland region, with high, and rapidly rising earning levels. From April 2000 to 2001, survey data showed that average wages in Stirling grew by **15%**.⁴⁸ However, it should be noted that one must be careful in the interpretation of regional figures, as accurate measurement can be difficult and easily skewed by rogue factors.

2.2.6 Exports

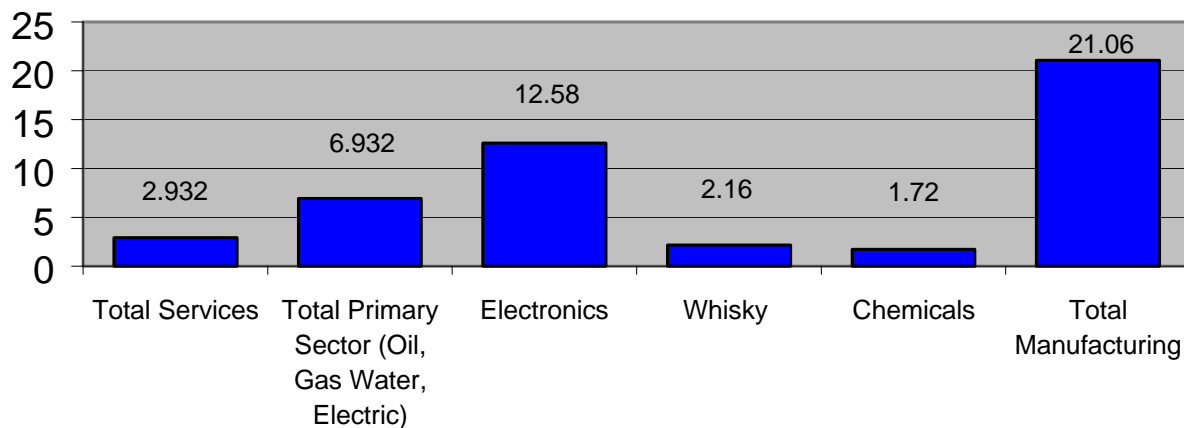
The latest reliable export figures relate to the year ending April 2001. Nevertheless they are interesting in the way they show both Scotland's and its sub-regions reliance on specific export markets.

(Survey of Scottish Sales and Exports in 2000', Scottish Council for Development and Industry, December 2001.)

⁴⁷New Earnings Survey, Office for National Statistics, April 2001.

⁴⁸New Earnings Survey, Office for National Statistics, April 2001.

Scottish Exports (£bn, 2000)



Scottish exports were worth over £30 billion in sales during 2000 - 2001, almost €50bn, of which the vast majority is manufacturing goods. Over a half of all manufacturing export revenue, and a third of total exports, comes from the electronics sector. This is a startling proportion by any measure, which clearly highlights how the global slowdown in demand, particularly for technological goods, can effect the Scottish economy. The largest other export products are chemicals and whisky both of which feature strongly in the East of Scotland.⁴⁹

When thinking about exports it is important to realise that these figures ignore Scottish sales to the rest of the UK. The Scottish Council for Development and Industry has estimated that Scottish '*Rest of UK*' exports add an additional 60% to total exports, equivalent to £20bn per year.⁵⁰

About 40% of all manufacturing exports coming out of Scotland, originate in the East of Scotland, roughly £8bn (€13bn) in 2000 - 2001. The region contains a large section of the industrial central belt that spans Edinburgh to Glasgow and it's surrounding, this zone producing the bulk of Scotland's electronics exports. In total, the East of Scotland exported over £5bn (€8bn) of electronics exports, 80% of this coming from the central Lothian region surrounding Scotland's capital city of Edinburgh. The other main exports for the region are chemicals with approximately £1bn worth of produce sold overseas in 2000 - 2001.⁵¹

2.2.7 Major Industrial and Employment Sectors

Scotland is a relatively small country, but it has a diverse, open and mature economy. There is a broad range of industrial sectors that make up the

⁴⁹Survey of Scottish Sales and Exports in 2000', Scottish Council for Development and Industry, December 2001.

⁵⁰Survey of Scottish Sales and Exports in 2000', Scottish Council for Development and Industry, December 2001.

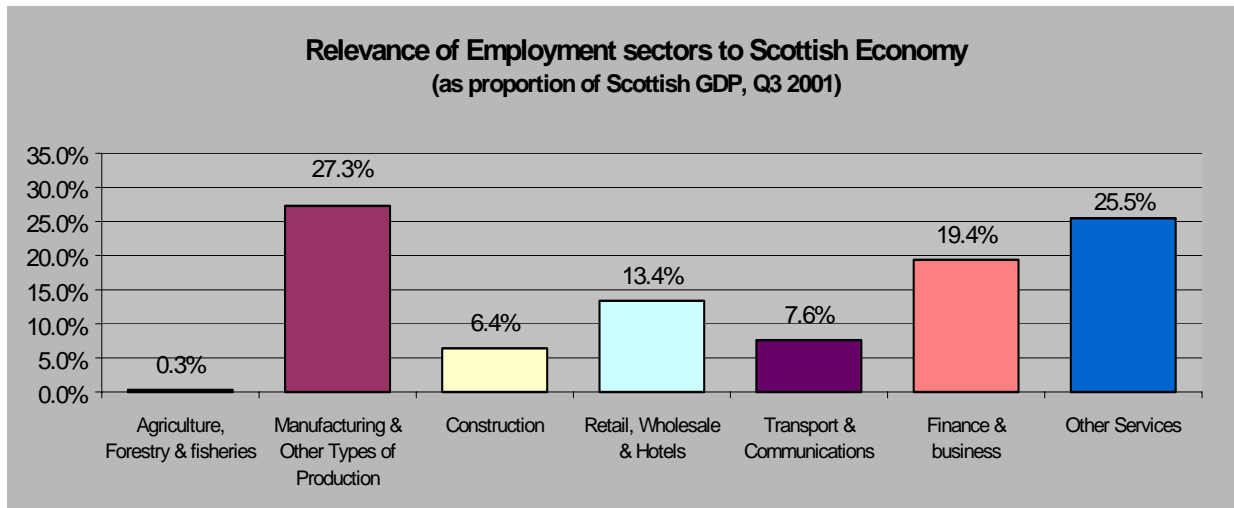
⁵¹Survey of Scottish Sales and Exports in 2000', Scottish Council for Development and Industry, December 2001.

economy, from primary industries such as farming and oil production, through to tertiary service sector employment, such as tourism and financial services. The importance of different sectors varies greatly from region to region for example, agriculture playing a greater role in the economy of the north, and electronics in the central belt.

The table below outlines the relative economic importance of the various employment sectors, in terms of their contribution to the nation's GDP. As with many mature economies, the cornerstone of the Scottish economy is the service sector, employing two thirds of the Scottish workforce and creating an equivalent proportion of Scotland's wealth.⁵² In contrast, our manufacturing and primary industries, especially the electronics and oil industries produce the bulk of our exports.

⁵²Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

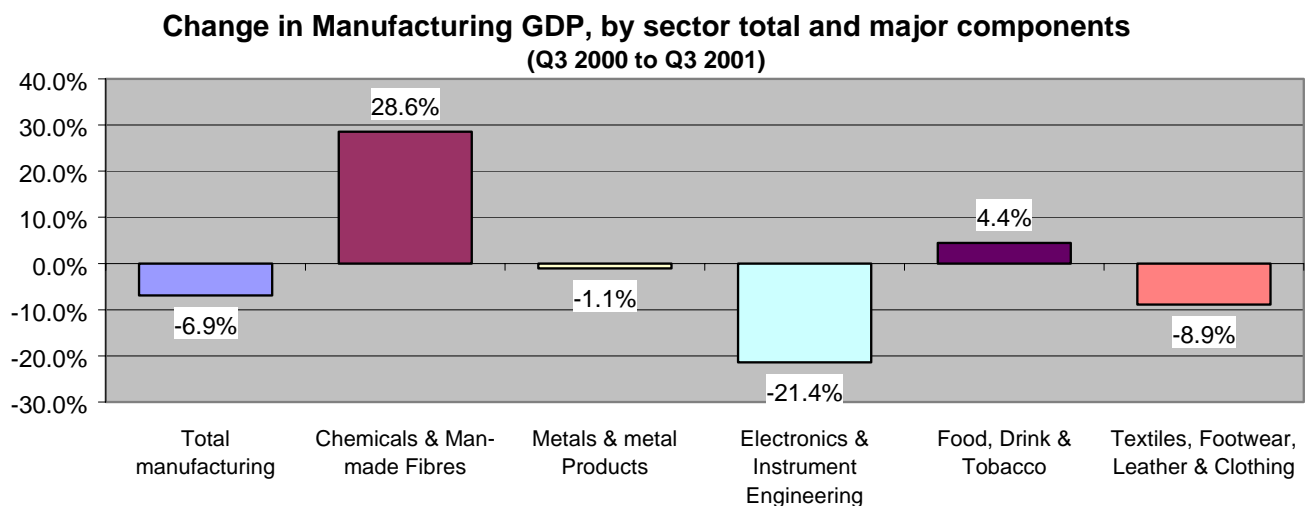
The changes that have affected the Scottish economy over the year have had differing effects on individual industries. Although the service sector in general has borne up well, tourism has suffered from multiple misfortunes. Likewise, the international situation hit our export sector very badly, particularly electronics.



(Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.)

The Manufacturing Sector

The latest figures in the table below show that the manufacturing sector employs almost 290,000 people in Scotland, 14% of the total workforce. It is also estimated that the sector supports another 185,000 jobs indirectly.⁵³ In total, almost 1 in 4 jobs in Scotland is reliant on manufacturing.



(Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.)

⁵³Civilian Workforce Jobs figures, Office of National Statistics.

In terms of GDP, manufacturing directly accounts for 22%, again almost a quarter, of the Scottish economy. In the year to September 2001, output from the manufacturing sector fell by **6.9%**,⁵⁴ continuing a steady decline since production peaked in early 2001. However, this fall has not been even across the various differing types of production. The chemicals industry has performed outstandingly over the last year, with economic output increasing by over 25%. Unfortunately this industry accounts for only around 10% of manufacturing output. In contrast the electronics and textiles industries have suffered greatly over the last year. The decline of the Scottish electronics industry is of particular concern, both in relation to the economic performance of Scotland and, more importantly, in respect of the employment the industry supports.

The Electronics Industry

In the 1990's the growth of Scotland's electronics industry was one of the nation's great success stories. In real terms, Scottish electronics output increased by a factor of four from 1990 - 2000. By 1999 employment from the industry stood at around 42,000 jobs, with an equal number of jobs supported indirectly.⁵⁵ Electronics is also the cornerstone of Scottish exports. The Scottish Council for Development and Industry estimates that the electronics sector exported £12.5bn (€20bn.) during 2000, over 40% of total Scottish exports and 60% of manufacturing exports.⁵⁶ Electronics is also a sector that requires a highly skilled workforce, which is shown by the fact that the average salaries in this industry are roughly **20%** higher than in general manufacturing.⁵⁷

The recent history of electronics has not been so successful, with the steady growth of recent years reversing into a rapid decline. In terms of GDP the electronic and instrument engineering sector, the best statistical comparator we have, peaked a year ago but since then has plummeted, falling more than **-20%** in the 12 months till last September.⁵⁸ This decline of the industry has been largely brought about by a fall in world demand for electronics goods. This has happened as consumers worldwide, fearful of their economic future, have restricted their spending on modern technology and other luxury goods. The fall in demand has led to Scottish job losses, particularly in the electronic heartland between Edinburgh & Glasgow. Major job losses in 2001 have included 3,100 jobs with the closure of the Motorola factory in Bathgate and 600 jobs announced by NEC Semiconductors in Livingston.

⁵⁴ Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

⁵⁵ Electronics Industry Briefing, Scottish Executive, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

⁵⁶ Survey of Scottish Sales and Exports in 2000', Scottish Council for Development and Industry, December 2001.

⁵⁷ Electronics Industry Briefing, Scottish Executive, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

⁵⁸ Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning.

The Construction Sector

Official statistics show that, despite the general economic slowdown, Scottish construction output grew in the four quarters to September 2001 by **5.3%**.⁵⁹ Construction is a highly cyclic industry and much of the growth last year was in line with the recovery expected from the last sectoral low back in mid 2000. After the rapid growth of last year, the industrial performance stagnated during the last quarter to September. This may finally be a sign of the broader economic slowdown taking effect. This delayed effect is surprising, as the construction industry is usually one of the first sectors to be affected by any economic downturn.

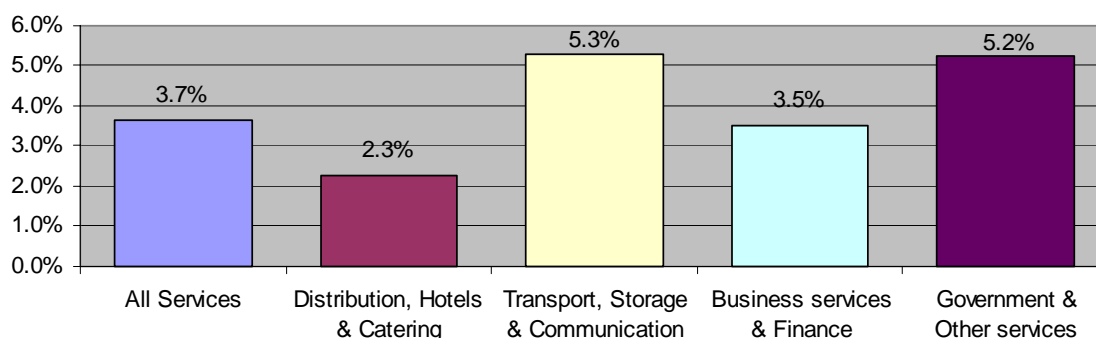
The Construction Trends Survey and the Scottish Chambers Business Survey, both conducted in the third quarter of 2001, indicated that business confidence in the sector is still buoyant. The industry was shown as one of the few sectors where demand in general had increased and the only one where employment was thought to have increased. However, about half of the fieldwork for the Scottish Chambers Business Survey was carried out after 11th September and this perhaps contributed to a reported reduction in business confidence. Information does not exist on when the fieldwork for the Construction Trends Survey was carried out, but it shows that despite the large increase in expected output, new enquiries had fallen in the 3rd quarter of 2001. This may be a sign that investment in buildings is beginning to falter, although it is still too early to tell by how much the events of 11th September will affect this industry.

The Service Sector

The service sector is by far the most important part of the Scottish economy. It is also the broadest, with many types of employment classified under the same title. Overall, the service sector has performed well during the last year, shoring up the Scottish economy against the weakness of the manufacturing sectors. Consumer demand for services has remained high, even in light of the global slowdown and 11th September. One clear reason for this is the way the UK government responded to world events, with interest rates being cut by **2%** to 4% during 2001. This has drastically cut the cost of borrowing, and so allowed consumers to continue spending. If any impact is to be seen it is likely to be greatest in the non-essential luxury fields such as tourism. The table below shows how various sections of the service industry have grown over 2001.

⁵⁹Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning.

**Change in Service Industry GDP, by sector and major components
(Q3 2000 to Q3 2001)**



(Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.)

The Retail Sector

The retail sector has stood up surprisingly well over the last year, with Scottish consumers refusing to reduce their demand for goods and services. Scottish Retail Consortium statistics indicate that retail sales in Scotland grew by **9.6%** in the year till January 2002. Food sales did particularly well with growth of **11.6%**. The Consortium claimed that the combination of falling interest rates and a relatively subdued unemployment had helped to keep consumer demand high. Whilst the retail sector in general is not eligible for Structural Fund support, it does provide a useful barometer of consumer confidence and does, to an extent contribute to the tourist industry.

Tourism

If one tried to classify what industry had been hit the worst by the year's events, only two sectors would be in the running, agriculture and tourism. Tourism has suffered a horrendous 'triple-whammy', having been affected negatively by Foot and Mouth, the global economic slowdown and 11th September, all in one year. Each of these events has reduced the potential number of tourists visiting Scotland.

Throughout Scotland, tourism was one of the sectors hit worst by FMD. The Scottish Executive Business Survey estimates that on average, tourist firms lost **31%** of their annual sales due to the disease, averaging at £19,440. VisitScotland made an estimate of the cost of FMD on tourism, claiming that £250m was lost to the economy during 2001.

The day that Scotland was declared FMD free was the same day of the US World Trade Centre disaster, 11th September. As noted earlier in this chapter, the effects of the American terrorist attack on the Scottish economy were

surprisingly mixed. US visitor numbers fell dramatically at first, and have not yet fully recovered. However, this fall in tourist income has been partially countered by a rise in UK and other non-US visitors, who have decided to visit Scotland rather than risk holidaying in the US.

Generally, the impact has been broadly negative, but the most noticeable impact is likely to be in the change in visitor behaviour. This is seen in a shift away from the 'high quality' end of tourist services, as was favoured by the US market, towards more price competitive packages. It is likely that the golfing sector is one area to suffer disproportionately, as it relied heavily on the US market.

Many tourist businesses are small, local, and often family-run, concerns. Such firms rarely have the resources to cope with a long-term drop in income. For this reason tourist companies had a high risk of job losses, during last year's poor business environment.

The Agricultural Sector

Looking at the Scottish statistics as set out earlier in this chapter, it is easy to come to the conclusion that agriculture is not a major component of the economy. Nevertheless, the contribution agriculture makes to some rural areas should not be understated. Agriculture plays a vital role in the economic, social and environmental sustainability of rural areas, particularly in those regions where other opportunities are limited, due to their sparse or peripheral nature.

The total agricultural workforce, including owner-occupiers, has remained constant at around 67,000, roughly 2% of the workforce, for over a decade.⁶⁰ However, there has been a decline in the number of people employed full time in the industry and a definite shift to part-time employment. This workforce is unevenly spread with peripheral areas tending to rely more on agricultural employment. The importance of agriculture for rural employment may be even greater than figures suggest, as it is hard to quantify the number of people who work part time in agriculture to supplement their main income.

It would be impossible to discuss Scottish agriculture in 2001, without mentioning Foot and Mouth disease. As highlighted in depth before, the impact of the disease affected the whole of the Scottish rural sector, with estimated agricultural losses of £60m for direct producers and a further £25m downstream. This is after taking into account subsidies of roughly £165m to Scottish farmers, made to compensate for losses in stock due to FMD.⁶¹

⁶⁰ Scottish Executive estimates, Economic Advice & statistics division, Enterprise & Life Long Learning, February 2002.

⁶¹ The Costs of the FMD Outbreak', DEFRA & DCMS Report, March 2002.

Total income from farming, based on their return on the capital (land, buildings etc.) and the time they spend running the farm, increased by **11%** in Scotland in 2001. The main reason for the increase in 2001 comes from the improving potato and milk prices and lower input, interest and labour costs. These more than offset falls in the value of cattle and sheep output as a result of FMD. This figure does not include FMD compensation given to Scottish farmers. Had it not been for FMD, the increase last year would have been still higher.⁶².

⁶²Figures quoted by Scottish Executive Environment and Rural Affairs Department, Scottish Executive, Feb2002.

CHAPTER 3: PROGRAMME IMPLEMENTATION

3.1 Financial Implementation of Single Programming Document

The attached **Annex 2** provides a comprehensive suite of tables covering the financial commitments and payments made in the Programme during 2001. These tables are expressed in both sterling and MEUROS and give the cumulative position as at 31 December 2001. This annex also presents a commitment table by field of intervention for each Programme measure.

3.1.1 Level of Project Commitment in 2001

In summary, **Annex 2** shows an ERDF commitment level of nearly 28%. The total number and value of ERDF commitments (including Technical Assistance) made during 2001 are listed below in sterling and MEUROS:

Financial Information expressed in £

	No of Projects	Forecast Expenditure	ERDF Grant
Eligible	104	£69,617,614	£25,899,420
Transition	90	£43,939,933	£16,442,733
Total	194	£113,557,547	£42,342,153

Financial Information expressed in MEUROS

	No of Projects	Forecast Expenditure	ERDF Grant
Eligible	104	114.315	42.527
Transition	90	72.151	26.999
Total	194	186.465	69.526

A complete list of these ERDF commitments is also attached for information as **Annex 3**.

3.1.2 Level of Project Expenditure Declared in 2001

The total number and value of projects (including Technical Assistance) that submitted ERDF grant claims during 2001 are listed below in sterling and MEUROS:

Financial Information expressed in £

	No of Projects	Declared Expenditure	Grant Paid
Eligible	8	£1,082,543	£433,065
Transition	7	£2,027,665	£631,858
Total	15	£3,110,208	£1,064,923

Financial Information expressed in MEUROS

	No of Projects	Declared Expenditure	Grant Paid
Eligible	8	1.777	0.711
Transition	7	3.330	1.038
Total	15	5.107	1.749

3.1.3 Initial Observations on Performance in 2001

A review of progress to date suggests no justification for major changes to the Single Programming Document (SPD) at this stage. This is partly due to the fact that whilst much activity is now underway, little result or impact data is yet available at this stage of the Programme on which to base any changes. However a number of observations can be made about performance in the different priorities and measures in the Programme. These are detailed in this chapter along with intended actions.

It is also clear that the strategic context within which the East of Scotland Programme operates suggests the need for a stronger focus on investments that are:

- **Generative** – projects which have the capacity to stimulate further investment and benefits beyond their own intrinsic outputs;
- **Leave a legacy** – investments which offer substantive and generative improvements in the region; create economically sustainable forms of assistance; and growing leverage of private sector funds;
- **Transitional** – relevant projects should develop exit strategies and investments need to consolidate the achievements of previous assistance;
- **Sustainable** – a focus on projects which not only meet the SPD definition of sustainable development, but that also are generative and leave a legacy.

The various thematic advisory groups in the Programme also highlighted many of the above themes during their appraisal of individual project applications. Inherent in these terms are the horizontal themes of sustainable development and equal opportunities. These terms also recognise the need for the East of Scotland area to maximise the potential benefits from ERDF during the 2000 – 2006 programming period.

3.2 Analysis of Programme Measures

3.2.1 Explanatory Note for Physical Monitoring Tables

A summary table has been included in the reports for each Programme measure in order to enable some assessment to be made about how well the Programme is performing based on commitments made and expenditure declared in 2001. These tables seek to compare the agreed SPD targets in each measure against forecast and actual activity. Due to the low number of ERDF claims received to date in the Programme, the emphasis for the comparison in this report will be done on the basis of forecast activities only. It is proposed to use actual figures

reported in ERDF claims for the basis of comparison in the 2003 AIR and beyond.

Please note: the forecast and actual physical monitoring information included in the following tables are taken from approved application forms and valid claim forms submitted by partner organisations. In some cases, the figures listed appear to be very high in comparison to the approved SPD targets and there is concern that individual partners may not be interpreting the guidance. It is clear that the Programme Executive will need to work with individual applicants during 2002 to review individual project targets in order to ensure the integrity of data provided in all programme forms.

3.2.2 Priority 1 Strategic Economic Development
Measure 1 SME Creation & Development

Agreed SPD Objectives of Measure 1.1

- increase the formation rate of new micro-businesses and SMEs throughout the East of Scotland, especially for new ventures with significant growth and export potential in leading-edge sectors;
- improve the growth rates and profitability of existing SMEs in the region through their adoption of improved management skills; strengthening their market and customer knowledge; and the provision of appropriate development finance;
- enhance the contribution of the universities, colleges, research institutes and other relevant agencies to the creation and growth of SMEs, especially through the encouragement of appropriate market-led research and development activities driven by the private businesses in the region;
- encourage the adoption by new and existing SMEs of environmentally sustainable business processes, technologies, materials and products and services; and in parallel to promote the growth of enterprises based on the natural heritage of the region as well as those providing environmental goods, technologies and services; and,
- promote the adoption of equal opportunities in the SME sector throughout the East of Scotland; and continue to address the issues of discrimination in terms of gender, ethnicity, disability or residence.

Summary of Performance in Measure 1.1 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	31	25	£6,060,475	9.951
Transition	35	28	£3,885,157	6.380
TOTAL	66	53	£9,945,632	16.331

Analysis of Measure 1.1 Indicators**Physical Outputs**

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of instances of assistance to existing businesses	12,455	19,051	370	28%	153%
Number of existing businesses assisted	6,228	5,132	236	28%	82%
Number of instances of assistance to new businesses	3,449	1,582	84	28%	46%
Number of new businesses assisted	3,449	730	58	28%	21%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	6,480	6,234	55	28%	96%
<i>No. of gross new jobs created for women</i>	2,592	1,639	11	28%	63%
<i>No. of gross new jobs created for members of ethnic minorities</i>	65	139	0	28%	214%
<i>No. of gross new jobs created for disabled people</i>	324	313	0	28%	97%
<i>No. of gross new jobs created in areas defined as most in need</i>	1,944	575	29	28%	30%
<i>No. of gross new jobs directly related to environmental activity</i>	324	243	0	28%	75%
No. of jobless securing employment	2,160	275	21	28%	13%
No. of young people under age 25 placed in employment	720	131	3	28%	18%
No. of gross jobs created through self employment	1,725	623	11	28%	36%
Gross number of jobs safeguarded	2,777	3,984	81	28%	143%

Increase in sales in assisted businesses (£m)	453.6	82.262	1.065	28%	18%
Private sector expenditure levered in by new assisted projects (£m)	12.3	8.784	0	28%	71%
No. of organisations taking up e-commerce trading	483	575	0	28%	119%
No. of organisations introducing active EO/family friendly/environmental policies	967	133	0	28%	14%
No. of organisations achieving recognised quality awards (IIP, Environmental etc)	967	184	0	28%	19%
No. of SMEs undertaking environmental management	967	324	0	28%	34%
Increase in volume of waste recycled or reused (tonnes)	NYA	2,000	0	28%	0%

Progress to Date in implementing Measure 1.1 and Issues

A reasonable start was made in 2001 to the implementation of this measure. There is currently a 28% grant commitment level and already some physical indicators are forecast for full achievement. However, it should be noted that many of the business development applications approved during the year are scheduled to operate over a 3 - 6 year period and the full impact and benefits of these projects will not be seen until much later on in the life of the Programme. A major operational issue facing applicants in this measure is the requirement to complete separate application forms for revenue projects seeking to operate in both eligible and transition areas. Whilst this requirement respects the fact that the SPD has two distinct budgetary allocations, it also places greater emphasis on applicants to ensure that projects are well focused and targeted at the time of project appraisal. With regard to the types of activities that were supported during the year, there were a large number of projects approved that will seek to assist SMEs to take up e-commerce trading. An example of such a project is EST/ERDF/01/11/0030 – E-business Support Programme, which is seeking to assist eight SMEs in the Forth Valley area to re-engineer how they undertake business. As a result, the agreed SPD figure for this indicator is already forecast for full achievement.

3.2.3 Priority 1 Strategic Economic Development
Measure 2 Access to Risk Capital

Agreed SPD Objectives of Measure 1.2

- encourage entrepreneurs in the East of Scotland to invest in new business start-ups and early growth expansion as a means of generating significant job opportunities, exports and wealth for the East of Scotland;
- target direct investment support for fast-growth SMEs on those sectors and locations with clear job creation potential where business owners, managers and investors can create internationally competitive enterprises;
- promote further investment partnerships and collaborative programmes between appropriate public sector agencies and private sector investment funds and pools in ways that are genuinely additional to the provision of direct investment to SMEs on attractive terms;
- enhance the awareness of SMEs and entrepreneurs of the benefits of securing risk-capital to grow their business; to help development agencies and private investors to adopt best practice investment and support activities; and to monitor changing international trends in development, seed and venture capital provision; and,
- ensure that best environmental practice is built into business proposals at key points in the investment decision process.

Summary of Performance in Measure 1.2 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	3	0	£0	0
Transition	1	0	£0	0
TOTAL	4	0	£0	0

Analysis of Measure 1.2 Indicators**Physical Outputs**

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of instances of assistance to existing businesses	772	0	0	0%	0%
Number of existing businesses assisted	618	0	0	0%	0%
Number of instances of assistance to new businesses	231	0	0	0%	0%
Number of new businesses assisted	231	0	0	0%	0%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	1,468	0	0	0%	0%
<i>No. of gross new jobs created for women</i>	<i>587</i>	<i>0</i>	<i>0</i>	<i>0%</i>	<i>0%</i>
<i>No. of gross new jobs created for members of ethnic minorities</i>	<i>15</i>	<i>0</i>	<i>0</i>	<i>0%</i>	<i>0%</i>
<i>No. of gross new jobs created for disabled people</i>	<i>73</i>	<i>0</i>	<i>0</i>	<i>0%</i>	<i>0%</i>
<i>No. of gross new jobs created in areas defined as most in need</i>	<i>440</i>	<i>0</i>	<i>0</i>	<i>0%</i>	<i>0%</i>
<i>No. of gross new jobs directly related to environmental activity</i>	<i>73</i>	<i>0</i>	<i>0</i>	<i>0%</i>	<i>0%</i>
No. of jobless securing employment	489	0	0	0%	0%
No. of young people under age 25 placed in employment	163	0	0	0%	0%
No. of gross jobs created through self employment	23	0	0	0%	0%
Gross number of jobs safeguarded	629	0	0	0%	0%
Increase in sales in assisted businesses (£m)	102.7	0	0	0%	0%
No. of organisations introducing active EO/family friendly/environmental policies	85	0	0	0%	0%
Increase in volume of waste recycled or reused (tonnes)	NYA	0	0	0%	0%

Progress to Date in implementing Measure 1.2 and Issues

There has been no activity to date in Measure 1.2 due to the need to complete the evaluation of loan and equity fund projects supported under the previous Eastern Scotland Objective 2 Programme. The evaluation study has now been completed and a small working group established to take forward the study recommendations and provide guidance as to the type of activities that should be supported in this measure. As a result, it is hoped that some project commitments will be made in 2002.

3.2.4 Priority 1 Strategic Economic Development
Measure 3 Technology & Knowledge Transfer

Agreed SPD Objectives of Measure 1.3

- enhance the capability and effectiveness of the transfer of know-how, advanced scientific knowledge and applied technology from the region's universities and research institutions into new and growing SMEs, and into the larger commercial and industrial enterprises in the region;
- strengthen the commercialisation capability and activities of the region's universities and research institutes through helping them develop best-practice skills and systems in commercialisation, including the use of Internet and specialist e-business approaches;
- improve the ability of SMEs in the region to identify their R&D needs required to maintain their market competitiveness; introduce further innovations in specialist advisory services associated with building this local demand for R&D from the region's universities and research institutes; and,
- encourage and enable the development of innovative research and training on knowledge and technology transfer so that the East of Scotland becomes an international leader in this area of economic development.

Summary of Performance in Measure 1.3 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	16	11	£2,898,432	4.759
Transition	11	7	£760,628	1.249
TOTAL	27	18	£3,659,060	6.008

Analysis of Measure 1.3 Indicators**Physical Outputs**

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of instances of assistance to existing businesses	2,420	2,320	0	26%	96%
Number of existing businesses assisted	1,210	820	0	26%	68%
Number of instances of assistance to new businesses	587	166	0	26%	28%
Number of new businesses assisted	587	166	0	26%	28%
Number of projects developing commercialisation capacity of HEIs	10	94	0	26%	940%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	2,446	1,683	0	26%	69%
<i>No. of gross new jobs created for women</i>	978	559	0	26%	57%
<i>No. of gross new jobs created for members of ethnic minorities</i>	24	56	0	26%	233%
<i>No. of gross new jobs created for disabled people</i>	122	27	0	26%	22%
<i>No. of gross new jobs created in areas defined as most in need</i>	734	141	0	26%	19%
<i>No. of gross new jobs directly related to environmental activity</i>	122	110	0	26%	90%
No. of jobless securing employment	815	0	0	26%	0%
No. of young people under age 25 placed in employment	272	15	0	26%	6%
No. of gross jobs created through self employment	59	4	0	26%	7%
Gross number of jobs safeguarded	1,048	1,366	0	26%	130%
Increase in sales in assisted businesses (£m)	244.6	19.2	0	26%	8%
Private sector expenditure levered in by new assisted projects (£m)	4.9	7	0	26%	143%
Value of investment in R&D	3.2	3	0	26%	94%

by assisted SMEs (£m)					
No. of patent/intellectual property rights registrations by assisted SMEs	449	62	0	26%	14%
No. of organisations taking up e-commerce trading	180	12	0	26%	7%
No. of organisations introducing active EO/family friendly/environmental policies	180	358	0	26%	199%
No. of organisations achieving recognised quality awards (IIP, Environmental etc)	449	0	0	26%	0%
No. of SMEs undertaking environmental management	180	358	0	26%	199%
Increase in volume of waste recycled or reused (tonnes)	NYA	0	0	26%	0%

Progress to Date in implementing Measure 1.3 and Issues

A reasonable start was made in 2001 to the implementation of this measure. There is currently a 26% grant commitment level and already some physical indicators are forecast for full achievement. However, as with Measure 1.1 it should be noted that some of the technology transfer applications approved during the year are scheduled to operate over a 3 - 6 year period. As a result, the full impact and benefits of these projects will not be seen until much later on in the life of the Programme. With regard to the types of activities that were supported during the year, a small number were specifically developed to assist SMEs to operate in a more environmentally efficient manner. For example, ESE/ERDF/01/13/0009 – Scottish Recycling Institute SME Project, is seeking to provide environmental advice to 360 existing SMEs in the Dundee area over the next four years. As a result, the agreed SPD figure for the various environmental indicators are already forecast for full achievement.

3.2.5 Priority 2 Strategic Locations and Sectors
Measure 1 Strategic Locations & Sectors (Revenue)

Agreed SPD Objectives of Measure 2.1

Support under this measure is for activities that will improve the competitiveness of SMEs in the six strategic sectors. These actions should improve the quality of products and service and encourage businesses to operate in a sustainable manner. Sector specific projects outwith the strategic locations will only be considered if they can demonstrate significant regional or programme level impacts.

Summary of Performance in Measure 2.1 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	14	10	£1,840,778	3.023
Transition	13	8	£3,132,393	5.143
TOTAL	27	18	£4,973,171	8.166

Analysis of Measure 2.1 Indicators

Physical Outputs

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of instances of assistance to existing businesses	2,005	18,684	0	43%	932%
Number of existing businesses assisted	1,003	7,392	0	43%	737%
Number of instances of assistance to new businesses	556	669	0	43%	120%
Number of new businesses assisted	556	249	0	43%	45%
Number of strategic environmental/ forestry partnerships funded	6	1	0	43%	17%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	2,146	1,255	0	43%	58%
<i>No. of gross new jobs created for women</i>	858	730	0	43%	85%
<i>No. of gross new jobs created for members of ethnic minorities</i>	21	14	0	43%	67%
<i>No. of gross new jobs created for disabled people</i>	107	81	0	43%	76%
<i>No. of gross new jobs created in areas defined as most in need</i>	644	423	0	43%	66%
<i>No. of gross new jobs directly related to environmental activity</i>	107	109	0	43%	102%
No. of jobless securing employment	715	95	0	43%	13%
No. of young people under age 25 placed in employment	238	594	0	43%	250%
No. of gross jobs created through self employment	55	2	0	43%	4%
Gross number of jobs safeguarded	3,020	1,506	0	43%	50%
Increase in sales in assisted businesses (£m)	73.1	38.197	0	43%	52%
Private sector expenditure levered in by new assisted projects (£m)	2.0	5.0	0	43%	250%
Increase in visitor numbers, millions, gross	2.572	1.378	0	43%	54%
No. of organisations introducing active EO/family friendly/environmental policies	156	73	0	43%	47%
No. of SMEs undertaking environmental management	156	0	0	43%	0%
Area of natural habitat under management (ha)	50	5	0	43%	10%
Increase in volume of waste recycled or reused (tonnes)	NYA	0	0	43%	0%

Progress to Date in implementing Measure 2.1 and Issues

A very good start was made in 2001 to the implementation of this measure. There is currently a 43% grant commitment level and some physical indicators are already forecast for full achievement. There was a particularly strong showing in transition areas where 80% of the available SPD allocation has already been committed. Part of the reason for this high level of commitment was as a result of additional co-finance being made available during the year by VisitScotland to the local tourist boards to support additional marketing schemes. This was done in response to FMD and September 11 and aimed to instill confidence and stimulate activity in this vital industry to the Programme Area. An example of such a project is EST/ERDF/01/21/0009 – Development of Niche Markets in East of Scotland, which is a joint application from five area tourist boards and aims to increase the sales of local businesses by over £8m.

3.2.6 Priority 2 Strategic Locations and Sectors
Measure 2 Strategic Locations & Sectors (Capital)

Agreed SPD Objectives of Measure 2.2

Strategic locations receiving support under this measure are in effect targeted economic and environmental development zones in the Programme Area, each of which may contain a number of key development sites. It will also include strategic development corridors linking similar clusters of advanced technology or outstanding environmental areas: this concept has been explained further in the conversion strategy, together with the eligibility criteria and the 8 proposed strategic locations and corridors where this Measure will apply.

In these locations funding opportunities will be targeted on the 6 strategic sectors and the Plan will provide ERDF support for a range of property, site infrastructure, IT, training facilities, transport and technology-transfer initiatives that can strengthen and promote their economic and environmental quality and potential, and promote both social inclusion and equal opportunity objectives. Sector specific projects outwith the strategic locations will only be considered if they can demonstrate significant Regional or Programme level impacts. In recognising the relative disadvantage and uncompetitive position of the eligible areas as compared with transition areas, there is a need to encourage and promote development opportunities, which are not solely confined to the six strategic sectors. In order to achieve significant value add, particularly in regard to additional employment opportunities, proposals could be supported within the designated strategic locations, but the support will be limited to sites which have Objective 2 eligibility status, that provide industrial sites and premises for SMEs engaged in manufacturing.

It is also incumbent on the Objective 2 Programme to provide ERDF support for training infrastructure that directly links to ESF activity under the Objective 3 Programme, and is consistent with the strategic focus of the East of Scotland Objective 2 Programme. Whilst accepting that this activity can not be limited to the strategic locations it is proposed that ERDF support should be primarily for projects aimed at SMEs within the strategic sectors.

Strategic locations will by their nature provide opportunities for a range of development activities including infrastructure. Support for infrastructure should respect the sustainable development approach i.e. maximise existing infrastructure. However, support for new infrastructure may be agreed where there is a robust economic justification and there are accompanying compensatory social and environmental benefits. In the case of roads this will be limited to roads which provide direct access to strategic development sites within a designated strategic location where development is planned to take place within a 3-year period.

As regards port facilities, ERDF support will only be given where these facilities are located within a designated strategic location and are exclusively for the use of commercial operators in handling freight or passenger traffic. Submissions will require to demonstrate a viable business case and the achievement of significant economic benefit to the regional economy.

Summary of Performance in Measure 2.2 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	46	25	£8,280,342	13.597
Transition	18	9	£5,333,817	8.758
TOTAL	64	34	£13,614,159	22.355

Analysis of Measure 2.2 Indicators

Physical Outputs

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Area of serviced land created/ enhanced (ha)	83	97.566	0	29%	118%
Area of serviced land created/ enhanced of which greenfield (ha)	24.9	16.566	0	29%	67%
Area of serviced land created/ enhanced of which brownfield (ha)	58.1	81	0	29%	139%
Area business space created/enhanced (m ²)	196,533	244,144	794	29%	124%
No. of training/learning facilities constructed/upgraded	4	7	1	29%	175%
Area of training/learning facilities constructed/upgraded (m ²)	5,747	5,621	4,948	29%	98%
No. of childcare facilities created	34	0	0	29%	0%
No. of childcare places created	342	0	0	29%	0%
Area of technology training premises developed (m ²)	5,747	4,948	4,948	29%	86%
Area of premises developed for child/dependent support (m ²)	3,421	0	0	29%	0%
No. of sites provided with direct access	17	0	0	29%	0%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	2,551	10,138	20	29%	397%
No. of gross new jobs created for women	1,020	2,667	0	29%	261%
No. of gross new jobs created for members of ethnic minorities	26	136		29%	523%
No. of gross new jobs created for disabled people	128	482	1	29%	377%
No. of gross new jobs created in areas defined as most in need	765	3,453	4	29%	451%
No. of gross new jobs directly related to environmental activity	128	2,542	16	29%	1,986%
No. of jobless securing employment	850	7	0	29%	1%
No. of young people under age 25 placed in employment	283	28	0	29%	10%
Gross number of jobs safeguarded	6,655	307	58	29%	5%
Increase in sales in assisted businesses (£m)	149.4	130	0	29%	87%
Area of business space created/enhanced occupied after 18 months (m ²)	98,267	260,044	0	29%	265%
Area of business space created/enhanced occupied after 3 years (m ²)	167,053	72,116	0	29%	43%
Private sector expenditure levered in by new assisted projects (£m)	11.8	2.287	0	29%	19%
Increase in visitor numbers, millions, gross	0.647	2.216	0	29%	343%

Progress to Date in implementing Measure 2.2 and Issues

Measure 2.2 has the largest financial allocation in the Programme and will be crucial in ensuring the successful implementation of the SPD strategy. The overall performance in relation to financial commitment and forecast physical activity in this measure was fairly strong in 2001. It is likely that this trend will continue in 2002 as many of the designated strategic locations start to implement a variety of projects consistent with their agreed strategic plans. With regard to the types of activities that were supported in 2001, there were a large number of applications received from further education colleges that sought to improve the overall quality of training infrastructure in the Programme Area. An example of such a project is ESE/ERDF/01/22/0006 – Business Learning Access Centre, which is seeking to construct a new 10,000m² building in Arbroath geared to meeting the training needs of local SMEs in the strategic sectors. As a result, the agreed SPD figure for training projects is already forecast for full achievement. The high number of training proposals received during the year and the wish to ensure a balanced achievement of measure targets has also triggered the Programme Monitoring Committee to commission a short dedicated piece of consultancy work in early 2002. This study which is being co-financed through technical assistance will be featured in more detail in the 2002 AIR but in general terms will seek to:

- assess the level of demand for new or enhanced training infrastructure in the context of the seven strategic sectors;
- provide an independent assessment of the projected economic impact of the projects that have already received support;
- assess the likely number of training projects that will seek support from the Programme, i.e. up to 31 December 2006; and,
- evidence that existing training infrastructure in the Programme Area is achieving complementarity with Objective 3.

3.2.7 Priority 3 Community Economic Development
Measure 1 Community Engagement and Capacity Building

Agreed SPD Objectives of Measure 3.1

Central to the CED Priority and supporting measures, is the need to ensure policy coherence and operational integration with those activities being delivered under the Government's agenda on social inclusion, in particular SIPs and Community Planning. In promoting the inclusion of disadvantaged and marginalised communities it is imperative that effective ways and means are employed to ensure the effective participation of these communities and excluded groups and that the process of engagement and empowerment can be measured and its benefits made visible.

Summary of Performance in Measure 3.1 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	10	7	£183,745	0.302
Transition	13	10	£130,155	0.214
TOTAL	23	17	£313,900	0.516

Analysis of Measure 3.1 Indicators

Physical Outputs

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of community appraisals completed	109	39	2	6%	36%
Number of community action plans (packages of projects) prepared	87	17	2	6%	20%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of community action plans implemented	78	18	2	6%	23%

Progress to Date in implementing Measure 3.1 and Issues

With regard to Measure 3.1, the level of financial commitment and forecast physical activity appears poor. However, this can be explained by the fact that the size and geographical coverage of the individual CED partnership areas

have proved to be much larger than was originally envisaged in the Programme Complement. Experience during 2000 shows that CED plans tend to cover groupings of communities within the same local authority area, rather than being focused on individual communities and as a result there is physically less activity taking place. It is also clear that local partnerships have taken close account of available resources and the cost and time implications involved in developing CED plans when determining the geographical coverage of a plan. As a result they have sought to balance the need for effective community engagement and partner consultation with achieving real economies of scale. Such an approach may in fact be more beneficial in the long-term by encouraging communities in the same geographical area to share experiences and tackle regeneration problems together rather than operating in isolation. The approach to CED plan development adopted by the advisory group and agreed by the Management Committee has also influenced the number of project commitments made in the CED Priority overall during the year. This approach makes it a prerequisite that externally validated CED plans are in place in the designated CED areas prior to those areas accessing implementation money under Measures 3.2 and 3.3. As a result, Measure 3.1 is predominantly being used to ensure the initial engagement of local communities into the CED plan process via short targeted pieces of work. Much of the on-going capacity building work often required in designated CED areas will now be supported through Measure 3.2 as an integral part of the implementation activities proposed in individual CED plans. A consequence of adopting this strategic approach is that some virement of grant resources between Measures 3.1 and Measure 3.2 is likely to be required sometime during the Programme period.

3.2.8 Priority 3 Community Economic Development
Measure 2 CED Implementation: Spatial Targeting

Agreed SPD Objectives of Measure 3.2

- enhance the capability of local communities and excluded groups in the East of Scotland to come together in the identification of opportunities to permanently enhance their local economic and/or social infrastructure in a sustainable way in the context of the regional conversion strategy;
- enable local communities and excluded groups to develop, detail and assess for financial and market feasibility new economic and social infrastructure projects to prepare project applicants for ERDF and Partner funding; and to then launch and successfully deliver funded projects;
- embed project development skills and knowledge within the East of Scotland, in particular within the communities and groups, in such a way as to ensure that they can generate, fund and deliver further economic and social infrastructure projects beyond 2006; and,
- encourage and support innovation and variety in the design and provision of economic and social development projects that can raise the awareness of community economic development possibilities throughout the East of Scotland, and to draw on experience from the European Union and elsewhere.

Summary of Performance in Measure 3.2 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	42	24	£4,772,083	7.836
Transition	39	28	£2,514,627	4.129
TOTAL	81	52	£7,286,710	11.965

Analysis of Measure 3.2 Indicators**Physical Outputs**

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of instances of assistance to existing businesses	324	635	0	29%	196%
Number of existing businesses assisted	162	1,001	0	29%	618%
Number of instances of assistance to new businesses	81	214	0	29%	264%
Number of new businesses assisted	81	124	0	29%	153%
Area of serviced land created/enhanced (ha)	1.9	11	0	29%	579%
Area of serviced land created/enhanced of which brownfield (ha)	1.9	1	0	29%	53%
Area business space created/enhanced (m ²)	31,646	5,435	175	29%	17%
No. of training/learning facilities constructed/upgraded	46	29	1	29%	63%
Area of training/learning facilities constructed/upgraded (m ²)	2,300	552	65	29%	24%
No. of childcare facilities created	46	85	0	29%	185%
No. of childcare places created	460	1,890	0	29%	411%
Area of community premises developed/ refurbished (m ²)	34,734	761	142	29%	2%
No. of community groups/organisations assisted involving administration of Key Funds and social capital grant schemes	15	35	14	29%	233%
No. of community facilities assisted involving creation/improvement of community ICT facilities	30	29	0	29%	97%
No. of community facilities assisted involving development/improvement of community transport schemes	30	1	1	29%	3%
No. of community facilities assisted involving development of waste management facilities	50	257	0	29%	514%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	1,678	869	2	29%	52%
No. of gross new jobs created for women	671	362	0	29%	54%
No. of gross new jobs created for members of ethnic minorities	17	77	0	29%	453%
No. of gross new jobs created for disabled people	84	52	0	29%	62%
No. of gross new jobs created in areas defined as most in need	1,175	637	2	29%	54%
No. of gross new jobs directly related to environmental activity	168	92	0	29%	55%
No. of jobless securing employment	1,007	1,218	0	29%	121%
No. of young people under age 25 placed in employment	336	452	0	29%	135%
No. of gross jobs created through self employment	40	57	0	29%	142%
Gross number of jobs safeguarded	719	935	0	29%	130%
Increase in sales in assisted businesses (£m)	70.2	0	0	29%	0%
Area of business space created/enhanced occupied after 18 months (m ²)	15,823	0	0	29%	0%
Area of business space created/enhanced occupied after 3 years (m ²)	26,899	0	0	29%	0%
No. of organisations introducing active EO/family friendly/environmental policies	243	71	0	29%	29%
No of SMEs undertaking environmental management	49	5	0	29%	10%
Area of natural habitat under management	8.5	0	0	29%	0%
Increase in volume of waste recycled or reused (tonnes)	NYA	0	0	29%	0%

Progress to Date in implementing Measure 3.2 and Issues

After a slow start, the level of commitment and forecast physical activity in Measure 3.2 picked up well over the last six months of the year and it is now 29% committed. This improvement can be explained by the fact that many of the designated CED areas had completed their CED plans and had begun the process of implementing projects linked to them. It is anticipated that this trend

will continue in 2002 as all CED areas complete their local plans and move to the implementation stage.

3.2.9 Priority 3 Community Economic Development
Measure 3 CED Implementation: Thematic Activity

Agreed SPD Objectives of Measure 3.3

- enhance the capability of communities and excluded groups in the East of Scotland's CED areas to come together in the identification of opportunities to permanently enhance their economic and/or social infrastructure in a sustainable way in the context of the regional conversion strategy;
- enable communities and excluded groups to develop, detail and assess for financial and market feasibility new economic and social infrastructure projects to prepare project applicants for ERDF and Partner funding; and to then launch and successfully deliver funded projects;
- embed project development skills and knowledge within the East of Scotland, in particular within the communities and groups, in such a way as to ensure that they can generate, fund and deliver further economic and social infrastructure projects beyond 2006; and,
- encourage and support innovation and variety in the design and provision of economic and social development projects that can raise the awareness of community economic development possibilities throughout the East of Scotland, and to draw on experience from the European Union and elsewhere.

Summary of Performance in Measure 3.3 by 31 December 2001

Designation	No. of Applications appraised by end 2001	No. of Projects Approved by end 2001	ERDF Grant Committed by end 2001 (£)	ERDF Grant Committed by end 2001 (MEURO)
Eligible	0	0	£0	0
Transition	1	0	£0	0
TOTAL	1	0	£0	0

Analysis of Measure 3.3 Indicators**Physical Outputs**

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Number of instances of assistance to existing businesses	52	0	0	0%	0%
Number of existing businesses assisted	26	0	0	0%	0%
Number of instances of assistance to new businesses	13	0	0	0%	0%
Number of new businesses assisted	13	0	0	0%	0%
No. of community groups/organisations assisted involving administration of Key Funds and social capital grant schemes	10	0	0	0%	0%
No. of community facilities assisted involving creation/improvement of community ICT facilities	15	0	0	0%	0%
No. of community facilities assisted involving development/improvement of community transport schemes	15	0	0	0%	0%

Intermediate Results

Approved Indicator	SPD Target	Forecast Target	Actual Achieved	% Allocation Committed	% SPD Target met by Forecast
Gross new jobs created	102	0	0	0%	0%
<i>No. of gross new jobs created for women</i>	41	0	0	0%	0%
<i>No. of gross new jobs created for members of ethnic minorities</i>	1	0	0	0%	0%
<i>No. of gross new jobs created for disabled people</i>	5	0	0	0%	0%
<i>No. of gross new jobs created in areas defined as most in need</i>	71	0	0	0%	0%
<i>No. of gross new jobs directly related to environmental activity</i>	10	0	0	0%	0%
No. of jobless securing employment	60	0	0	0%	0%
No. of young people under age 25 placed in employment	20	0	0	0%	0%
Gross number of jobs safeguarded	44	0	0	0%	0%

Increase in sales in assisted businesses (£m)	2.5	0	0	0%	0%
No. of organisations introducing active EO/family friendly/environmental policies	39	0	0	0%	0%

Progress to Date in implementing Measure 3.3 and Issues

No projects were approved in Measure 3.3 during the year. This can partly be explained by the fact that most CED areas had only just completed or were in the process of completing their CED plans. Even in areas where implementation projects were being developed in 2001, the priority at this stage of the CED process was to develop Measure 3.2 activity, which is solely at the neighbourhood level or operating within local authority boundaries. In seeking to forecast potential activity in Measure 3.3 in future years, it is hoped that the opportunities to promote cross-community working in the East of Scotland will increase as the various local CED partnerships become mature and seek a less local perspective.

3.3 Modifications to the Programme Complement

Although the detail of the Programme Complement is currently undergoing some minor revision, there are no proposals at this stage to make substantive modifications to the overall strategy of the Programme or to propose any intra-priority or cross-priority virement.

3.4 Actions in Favour of EES and NEAP

The Scottish Executive is committed to using the European Social Fund to further the UK's contribution to the European Employment Strategy (EES) as outlined in the 2001 National Employment Action Plan (NEAP). The EES has five key policy fields. These are:

- active labour market policies to fight unemployment;
- an inclusive society, open to all;
- promoting employability, skills and mobility through lifelong learning;
- developing adaptability and entrepreneurship; and,
- promoting positive actions for women

In particular, in 2001 the funds allowed the Scottish Executive to add value to, and reinforce the impact of, key national welfare to work programmes such as the New Deal. The Objective 3 programme also worked very closely during the year with the Employment Service and Scottish Enterprise to ensure that ESF worked hand in glove with New Deal and Training for Work.

Although there are no specific ESF measures in the East of Scotland Objective 2 Programme, many of the ERDF measures seek to complement and promote positive actions in favour of the EES and NEAP. For example, in Measure 2.2 there were a high number of training infrastructure projects funded during the year, many of which will be used to support future ESF projects funded under Objective 3. The development of local plans in CED areas has also identified a number of problems that require effective co-ordination between Objective 2, Objective 3 and national regeneration initiatives such as the Social Inclusion Partnerships.

3.5 Horizontal Themes

This short section considers the implementation of the horizontal themes in the Programme based on the project commitments made in 2001. A detailed report assessing the practical actions undertaken during the year to ensure the quality and effectiveness of implementation with regard to the horizontal themes is included on pages 74 - 78.

Many projects are contributing positively towards the horizontal themes targets agreed in the SPD. Some indicators such as 'the % of businesses assisted which have family friendly policies' will be more realistically monitored through review work rather than through the collection of data from application and claim forms and so it is too early to provide indications of achievements in relation to these.

In general, however, there are positive examples of how applicants are approaching the horizontal themes and seeking to integrate them into project design and management. These include a business development project in Midlothian, ESE/ERDF/01/11/0015 – Integrated Environmental Support for SMEs, which aims to assist SMEs to realise the cost savings and other benefits of effective environmental management. Despite these positive signs, there is also evidence that applicants, whilst broadly embracing the horizontal themes, are nevertheless under-reporting these in the application and claim forms and work is underway to address this and improve reporting consistency.

Sustainable Development Indicator	Forecast Target
No. of organisations introducing active EO/family friendly/environmental policies	635
No. of SMEs undertaking environmental management	687
Increase in volume of waste recycled or reused (tonnes)	2,000
No. of gross new jobs directly related to environmental activity	3,096
Area of natural habitat under management (ha)	5
Area of serviced land created/enhanced of which brownfield (ha)	82
No. of community action plans (packages of projects) prepared	17
No. of community facilities assisted involving development/improvement of waste management facilities	257

Equal Opportunities Indicator	Forecast Target
No. of gross new jobs created for women	5,957
No. of gross new jobs created for members of ethnic minorities	422
No. of gross new jobs created for disabled people	955
No. of gross new jobs created in areas defined as most in need	5,229
No. of childcare facilities created	85
No. of childcare places created	1,890
Area of premises developed for child/dependent support	0

CHAPTER 4: PERFORMANCE RESERVE

4.1 Assessment against Agreed Performance Reserve Indicators

4.1.1 Physical Criteria

The following table seeks to quantify the agreed targets set out in the SPD against forecast activity as at 31 December 2001.

INDICATOR	AGREED TARGET	FORECAST TARGETS APPROVED TO DATE*	% ACHIEVEMENT OF AGREED TARGET
Physical Outputs			
Priority 1: Strategic Economic Development			
Number of existing businesses assisted	2,625	5,952	227%
Number of instances of assistance to existing businesses	5,468	21,371	391%
Number of new businesses assisted	1,492	896	60%
Number of instances of assistance to new businesses	1,492	1,748	117%
Priority 2: Strategic Locations and Sectors			
Area of business space created or enhanced (sqm)	68,900	244,144	354%
Area of serviced land created/enhanced (ha)	28	97	348%
Number of existing businesses assisted	350	7,392	2,112%
Number of instances of assistance to existing businesses	700	18,684	2,669%
Number of new businesses assisted	195	249	128%
Number of instances of assistance to new businesses	195	669	343%
Number of strategic environmental/forestry partnerships funded	2	1	50%
Priority 3: Community Economic Development			
Area of training/learning facilities constructed/upgraded (sqm)	800	552	69%
Number of existing businesses assisted	65	1,001	1,540%
Number of instances of assistance to existing businesses	131	635	485%
Number of new businesses assisted	33	124	376%
Number of instances of assistance to new businesses	33	214	648%
Number of childcare facilities created	15	85	567%

Intermediate Results			
Priority 1: Strategic Economic Development			
Gross new jobs created	3,600	7,917	220%
Gross number of jobs safeguarded	1,555	5,350	344%
Increase in sales in assisted businesses (m)	330	101.462	31%
Number of patent/intellectual property rights registrations by assisted SMEs	98	62	63%
Number of SMEs undertaking environmental management	18	682	3,789%
Priority 2: Strategic Locations and Sectors			
Gross new jobs created	1,643	11,393	693%
Gross number of jobs safeguarded	3,380	1,813	54%
Increase in sales in assisted businesses (m)	76	168.197	221%
Increase in visitor numbers – millions, gross	1,126,650	3,594,000	319%
Area of natural habitat under management (ha)	2	5	250%
Priority 3: Community Economic Development			
Gross new jobs created	621	869	140%
Gross number of jobs safeguarded	266	935	351%
Increase in sales in assisted businesses (m)	24	0	0%
Number of organisations introducing active EO/family friendly/environmental policies	98	71	72%

* The figures in the 'Forecast Targets Approved to Date' column are gathered from approved projects (some of which extend past 2003).

4.1.2 Management Criteria

Management Criterion 1 – All approved projects will provide financial and monitoring data and this information will be detailed in the Annual Report(s) by 31 December 2003.

In accordance with this criterion, this report presents this data for 2001 at both Priority and Measure level.

Management Criterion 2 – A minimum of 10% of the funding claimed and paid by the end of 2003 will have been the subject of an on-site monitoring visit.

In accordance with this criterion, a programme of on-site monitoring visits will commence in 2002.

Management Criterion 3 – 100% of approved projects will have been the subject to the scoring and selection system approved by the Programme Monitoring Committee.

In accordance with this criterion, this was fully implemented during 2001.

Management Criterion 4 – An independent, mid-term evaluation of the East of Scotland Objective 2 SPD will be submitted to the European Commission no later than 31 December 2003.

In accordance with this criterion, the mid-term evaluation will be tendered in 2002.

4.1.3 Financial Criteria

Financial Criterion 1 – A sum of expenditure, equivalent to 95% of the first two years total estimated value, will have been requested as receivable by 31 December. The financial tables within the SPD indicate that 227.467 MEURO has been allocated to the Programme for the period 2000 – 2001.

In accordance with this criterion, the Programme Management Executive will closely monitor progress towards this target.

Financial Criterion 2 – A sum of expenditure amounting to 30%, or 21.33 MEURO, of the private sector contribution to the programme will have been deemed receivable by 31 December 2003.

In accordance with this criterion, no progress had been made towards the achievement of this target. It is anticipated that direct private sector contributions to the Programme will increase substantially in 2002 as partner agencies engage with the private sector in order to develop joint ventures.

4.2 Proposed Changes to Performance Reserve Indicators

Following initial discussions between the European Commission and the Scottish Executive in late 2001, it was accepted that some confusion existed regarding the treatment of the performance reserve at the time the SPD was finalised. Unfortunately within the East of Scotland it had been included as part of the formal decision on the Programme rather than forming part of the Programme Complement. Furthermore, it was also recognised that there were a number of apparent inconsistencies in the approach taken on the Performance Reserve across all the Scottish Objective 2 Programmes.

In late January 2002 a formal meeting between the Commission, the Scottish Executive and the various Objective 2 PME's was held on the performance reserve. Amongst the issues discussed at this meeting was the methodology

used to calculate the various indicator targets, in particular those relating to assisting businesses. The critical issue of the meeting was whether the performance reserve indicators should report actual or forecast data. Following this meeting, all parties agreed to revise the performance reserve indicators so they correspond to physical outputs and intermediate results achieved rather than be based on forecast activity and operate to a consistent methodology. It was further agreed that the cut off point for assessing whether the Programme has achieved its performance reserve targets, which forms part of the mid-term review assessment, should be revised from 31st December 2003. Once these various changes have been completed satisfactorily, the Commission will issue a revised decision for the East of Scotland Programme. As this performance reserve revision process is currently ongoing, it is proposed to provide a full report on it in the 2002 AIR.

CHAPTER 5: STEPS TAKEN TO ENSURE QUALITY AND EFFECTIVENESS OF IMPLEMENTATION

5.1 Programme Implementation Arrangements

The implementation arrangements for the East of Scotland Objective 2 Programme 2000 - 2006, in particular the committee structure, composition and terms of reference, were agreed by the Programme Monitoring Committee (PMonC) at its first full meeting on 28 November 2000 and were based on Council Regulation (EC) No. 1260/1999. The PMonC subsequently agreed the membership of the Programme Management Committee (PManC) and the three thematic advisory groups at its meeting on 05 March 2001. A copy of these implementation arrangements can be obtained on request from the Programme Executive.

5.2 Programme Committees and Groups

The Programme is being implemented through a three-tier committee structure comprising a Monitoring Committee, a Management Committee and three advisory groups covering each of the different strategic priorities. All committees in the programme have a membership structure which is representative of the wider Objective 2 partnership, although appointment is made by the Scottish Executive on the basis of nominations received from the various partner constituencies. Staff from an independent Programme Executive provides the administrative support to this three-tier committee structure.

5.2.1 Programme Monitoring Committee

The Scottish Executive chairs this key strategic committee and under the agreed terms of reference it will:

- confirm or adjust the Programme Complement, including the physical and financial indicators to be used to monitor the structural fund assistance;
- consider and approve the criteria for selecting the operations financed under each measure within six months of the approval of the assistance;
- periodically review progress made towards achieving the specific objectives of the assistance;
- examine the results of implementation, particularly achievement of the targets set for the different measures and the mid-term evaluation referred to in Article 42 of Council Regulation 1260/1999;

- consider and approve the annual and final implementation reports before they are sent to the Commission;
- consider and approve any proposal to amend the contents of the Commission decision on the contribution of the funds;
- propose to the Managing Authority any adjustment or review of the assistance likely to make possible the attainment of the objectives referred to in Article 1 of the Regulation, or to improve the management of the assistance, including in respect of financial management;
- undertake any residuary tasks relating to the reporting and closure of previous Objective 2 and 5b Programmes for which the region was eligible in the 1994 – 1999 programming period;
- co-ordinate promotion and publicity for the Programme; and,
- establish such supporting committees or structures as considered appropriate to assist the Monitoring Committee in exercising their functions and responsibilities.

The composition of the PMonC is in line with Article 35 of Council Regulation (EC) No. 1260/1999 and includes representatives from both the local partnership and the Managing Authority. Representatives from the European Commission also attend the Committee in an advisory capacity. The list of Committee members as at 31 December 2001 was as follows:

Name	Organisation
Ms Diane McLafferty (Convenor)	Scottish Executive
Mr Colin Brown	Scottish Executive
Councillor Raymond Bisset	Aberdeenshire Council
Mr Alan Boyle	West Fife Enterprises
Councillor Linda Gow	Falkirk Council
Mrs Rhona Grant	Scottish Fishmerchants Federation
Councillor David Hamilton	Midlothian Council
Ms Amanda Harvie	Aberdeen & Grampian Chamber of Commerce
Ms Lorna Jack	Scottish Enterprise Forth Valley
Mrs Joyce Johnston	Fife College
Mr Graham McKee	Scottish Enterprise Tayside
Ms Julia Palmer	Scottish Council for Voluntary Organisations
Ms Sue Pinder	West Lothian College
Ms Selma Rahman	Fife Racial Equality Council
Mr Robert Sargent	Scottish Environment Protection Agency
Dr Bob Smailes	University of Edinburgh
Mr Colin Smith	Angus & City of Dundee Tourist Board
Mr George Thomson	Scottish Trades Union Council

There were two Monitoring Committee meetings held during 2001. The dates and locations of these meetings and the key decisions taken at them are outlined below:

- 05 March 2001, Dunfermline – amongst the key decisions taken at this meeting was the agreement of final revisions to the Programme Complement. The Committee also agreed the membership of the Programme Management Committee and the three thematic advisory groups and endorsed the introduction by the Scottish Executive of a post-approval Compliance Procedure aimed at improving the implementation of individual projects. Following consideration of a report on two loan and equity funds supported in the Eastern Scotland Objective 2 Programme 1997 – 1999, the Committee also agreed to commission an evaluation study into Risk Capital funds in the region. It was felt that such a study would help inform the most effective way in which to use ERDF resources available in the 2000 – 2006 programming period under Measure 1.2.
- 10 September 2001, Dunfermline – amongst the key decisions taken at this meeting was the agreement by the Committee of further revisions to be made to the Programme Complement in line with recommendations made by the ex-ante evaluator. The Committee also agreed the retrospective approval of the Annual Implementation Report and the Annual Review Document for calendar year 2000. In addition, the Committee received a presentation by the external consultants appointed to undertake an evaluation study into Risk Capital funds in the East of Scotland. As a consequence of this evaluation study, the Committee agreed to establish a small working group to examine in more detail key issues that had been raised in the study. In particular, the working group would look at the feasibility of setting up a Lowland Scotland Risk Capital Fund and identify the best ways to ensure that local SMEs became “investor-ready”.

The agendas and minutes for both these two PMonC meetings can be obtained on request from the Programme Executive.

5.2.2 Programme Management Committee

The Management Committee has no separate statutory existence and its authority depends upon its status as a subsidiarity committee of the PMonC. The Scottish Executive chairs it and under the agreed terms of reference it will:

- consider recommendations for project approvals following consideration by the thematic advisory groups, taking into account the objectives of the Programme and compliance with relevant EU legislation;
- consider any operational policy and procedural issues identified by the advisory groups and making recommendations as appropriate to the PMonC;

- monitor the physical and financial progress of the Programme and bringing forward recommendations to the PMonC for any adjustments considered necessary;
- consider the timing of calls for applications and application of resources and making recommendations to the PMonC as necessary; and,
- consider draft annual implementation reports and making recommendations to the PMonC as necessary.

The composition of the Management Committee is drawn from the key organisational sectors in the partnership along with representatives of the Managing Authority. The list of Committee members as at 31 December 2001 was as follows:

Name	Organisation
Mr Colin Brown (Convenor)	Scottish Executive
Ms Tracey Archibald	Scottish Enterprise Edinburgh & Lothians
Ms Carol Bartholomew	Coalfields Regeneration Trust
Mr Alastair Cameron	Claverhouse Group
Mr Douglas Clark	Forestry Commission
Ms Janet Cox	Lauder College
Ms Sharon Douglas	Fife Council
Professor Philip Esler	University of St Andrews
Mr Nigel Fairhead	The National Trust for Scotland
Mr Patrick Laughlin	Kingdom of Fife Tourist Board
Dr Ken Macdonald	Clackmannanshire Council
Ms Liz McManus	The Moray Council
Mr David Murray	West Lothian College
Mr Joe Noble	Scottish Enterprise Fife
Ms Alison Spearman	Scottish Enterprise Grampian
Ms Diane Taylor	University of Dundee
Mr David Valentine	Angus Council
Mr Keith Wimbles	Scottish Council for Voluntary Organisations
Mr John Withers	Roslin Institute (Edinburgh)
Mr Ian Young	Midlothian Council

There were two Management Committee meetings held during 2001. At these meetings, ERDF applications were formally endorsed for approval and any key operational issues raised in the various advisory group reports were discussed. The dates and locations of these meetings are listed below:

- 01 June 2001, Dunfermline;
- 28 September 2001, Elgin.

The agendas and minutes for these PManC meetings can be obtained on request from the Programme Executive. In addition to these two formal meetings, use was made on one occasion of the written procedure mechanism

during 2001. This was done in order to ensure the efficient implementation of the Programme and enabled decisions on key and time critical projects to be made out-with the normal meeting cycle.

5.2.3 Advisory Groups

The work of appraising project applications in the 2000 - 2006 Programme is undertaken through three advisory groups, each of which is responsible for one of the agreed SPD Priorities. The groups are listed below:

- Strategic Economic Development Advisory Group (Priority 1)
- Strategic Locations & Sectors Advisory Group (Priority 2)
- Community Economic Development (Priority 3)

The membership of the advisory groups is drawn from the key partner constituencies and the primary consideration for membership is an individual's technical expertise in the development theme/area concerned. The rules of procedure for the advisory groups also require members to operate in an impartial manner in the appraisal of individual projects. Senior staff from the independent Programme Management Executive (PME) chair these three advisory groups. In addition, representatives from the Scottish Executive attend as necessary in order to ensure policy coherence between the structural funds and national strategies and priorities. The list of advisory group members as at 31 December 2001 was as follows:

Strategic Economic Development Advisory Group

Name	Organisation
Mr Kenneth Clark	Scottish Development International
Professor Kevan Gartland	University of Abertay Dundee
Ms Jane MacLeod	Scottish Enterprise Grampian
Mr Pierre Masson	The Moray Council
Mrs Anne Mitchell	Dundee Chamber of Commerce
Mr Ken Mitchell	Scottish Enterprise Forth Valley
Mr Peter Quinn	Clackmannanshire Council
Ms Margaret Mary Rafferty	Clackmannanshire Enterprise
Mr Alistair Shaw	West Lothian Council
Mr Colin Steen	Fife College
Mr Jim Wallace	Scottish Executive
Ms Antonia White	Defence Diversification Agency
Dr Keith Winton	Edinburgh Technology Fund
Vacancy	SEPA / Scottish Natural Heritage

Strategic Locations & Sectors Advisory Group

Name	Organisation
Mr John Beveridge	Midlothian Council
Ms Cynthia Buick	Fife College
Ms Julie Craik	University of St Andrews
Mr Liam Fennell	Scottish Enterprise Edinburgh & Lothians
Mr Paul Furbank	West Lothian Council
Mr Michael Gale	Scottish Enterprise Tayside
Mr Nick Halfhide	Cairngorms Partnership
Ms Lynn Hamilton	ALLST Tourist Board
Ms Morna Harper	Aberdeenshire Council
Mr Bruce Heil	Edinburgh's Telford College
Mr Ed Marnie	Scottish Enterprise Forth Valley
Professor Peter Martin	University of Abertay Dundee
Mr Ian McGhee	Rural Stirling Economic Partnership
Ms Diane Milne	Dundee City Council
Mr Derek Nelson	Forestry Commission
Mr David Sharland	The National Trust for Scotland
Vacancy	Scottish Enterprise Network

Community Economic Development Advisory Group

Name	Organisation
Mr Murray Allan	Scottish Enterprise Forth Valley
Ms Fiona Bell	Aberdeenshire Council
Ms Gillian Lochhead	Scottish Enterprise Tayside
Ms Yvonne Lord	Coalfields Regeneration Trust
Ms Andi Macfarlane	BRAG Enterprises
Mr Alasdair Mathers	Midlothian Council
Mr Allan Millar	Dundee City Council
Mr Andrew Pont	Stirling Council
Mr Bill Stalker	Aberdeen College
Mr Paul Vaughan	Scottish Enterprise Fife
Mr Mac Wilkinson	Craigmillar European Programme
Vacancy	Voluntary Sector
Vacancy	East of Scotland Tourist Board Network

5.2.4 Advisory Group Reports**Report of the Strategic Economic Development Advisory Group**

This advisory group met on 7 occasions during 2001. During the year, they appraised a total of 97 applications submitted under Priority 1, of which ERDF grant had been committed to 71 of them by 31 December 2001.

During the appraisal of Priority 1 applications, the advisory group highlighted a number of key operational issues that were later discussed and agreed by the PManC. In summary these related to:

- the need for separate project application forms to be completed for revenue projects operating in both eligible and transition areas;

- the importance of past performance monitoring information as a guide to informing future project activity;
- the importance of effective strategic planning in the provision of local business development services;
- the need for applicants of revenue projects, especially in transition areas, to develop funding plans which assume a declining rate of ERDF grant intervention over the life of the project;
- the need for partner organisations to more effectively address the horizontal programme objectives in individual project application forms; and,
- the low level of project applications received in Measures 1.2 and 1.3.

Report of the Strategic Locations & Sectors Advisory Group

This advisory group met on 7 occasions during 2001. During the year, they appraised a total of 91 applications submitted under Priority 2, of which ERDF grant had been committed to 52 of them by 31 December 2001.

During the appraisal of Priority 2 applications, the advisory group highlighted a number of key operational issues that were later discussed and agreed by the Management Committee. In summary these related to:

- the importance of supporting targeted tourism marketing schemes in the Programme Area to help counter the negative economic impact of foot and mouth disease and the US terrorist outrage;
- ensuring that development plans and overarching strategic documents were completed for each of the nine strategic locations in the Programme Area in line with the strategy outlined in the approved SPD document;
- the high number of training infrastructure applications received during the year and the need to ensure the balanced achievement of agreed programme targets in Measure 2.2; and,
- the low number of public/private property development applications received during the year which was caused by the absence of an agreed and comprehensive aid scheme with the Commission.

Report of the Community Economic Development Advisory Group

This advisory group met on 8 occasions during 2001. During the year, they appraised a total of 105 applications submitted under Priority 3, of which ERDF grant had been committed to 69 of them by 31 December 2001.

During the appraisal of Priority 3 applications, the advisory group highlighted a number of key operational issues that were later discussed and agreed by the PManC. In summary these related to:

- monitoring the progress of completing local development plans for all designated CED wards in the Programme area in line with the strategy outlined in the approved SPD document;
- agreeing an interpretation of the different activity scope points for the three measures in the Priority;
- the low level of project applications received in Measure 3.3; and,
- examining ways to encourage more community involvement in the Programme.

5.2.5 Project Selection

The Monitoring Committee at its meeting on 28 November 2000 agreed the project selection methodology and criteria for the Programme. Although it is based on the criteria that operated during the 1997 - 1999 period, the Programme Executive undertook a complete review of the project appraisal system in early 2000. This was done to ensure that the system was compatible with the new plan document and to learn from the experiences of earlier programmes by introducing more efficient and transparent working practices. A copy of the final version of the project selection methodology and criteria can be obtained on request from the Programme Executive.

5.3 Objective 2/Objective 3 Co-ordination

During 2001 the Objective 3 Programme and the three Objective 2 Programmes in Scotland continued to build on the good work undertaken in 2000 to ensure that programme implementation and project selection arrangements encouraged co-ordination and complementarity while avoiding duplication.

The Scottish Executive Structural Funds Division is Managing Authority for the Objective 3 and Objective 2 programmes in Scotland, and this facilitates effective administrative co-ordination. In 2001 an Objective 2/3 Co-ordination Group was set up to discuss specific and general issues relating to co-ordination. The Group was convened by the Scottish Executive and was attended by each Programme Management Executive (PME) Director.

Although no ESF is available in the South and East of Scotland Objective 2 Programmes, the Objective 3 PME has nevertheless sought to ensure that applicants from all areas of lowland Scotland have equal opportunity of access to the Objective 3 Programmes. Several mechanisms were implemented during 2001 to facilitate this and included:

- the Objective 3 Programme Management Executive working closely with the Objective 2 PMEs to provide advice and information to potential Objective 3 applicants. The role of the Objective 2 PMEs has been significant in this respect, as they have a closely defined regional partnership basis and are in a good position to recognise potential ESF/ERDF linkages;
- the system of indicative geographical allocations in the Objective 3 programme continued in 2001. However, experience of the 2001 Objective 3 application round indicated that continued use of such a system was not practical, because it did not encourage the most effective use of programme resources, and could in the longer term have a detrimental effect on the programme's "N+2" considerations. [In recognition that each of the areas of Scotland has a unique employment and economic situation which means that each area might have greater demand for particular priorities of the programme, this allocation system was discontinued after the 2001 round in favour of a solely quality led approach by measure];
- a pan Scotland Labour Market Information co-ordination service was established for the structural funds. At the same time, arrangements were made for Objective 3 applicants to have access to regional Objective 2 labour market information services; and,
- the Objective 2 PMEs were consulted during the Objective 3 appraisal process to allow their local knowledge and understanding of ESF/ERDF complementarily to be fed into that appraisal.

In addition to the above, staff from the East of Scotland PME also attended two seminars aimed at improving Objective 2/Objective 3 co-ordination. These were a specific training day for Objective 3 advisory group members held on 7 June and an application seminar for voluntary sector organisations held on 15 June. In both cases, particular emphasis was placed on the need for Objective 3 applicants to demonstrate the links between their projects and the key elements of the area based strategies in the designated Strategic Sectors and CED areas

of the East of Scotland Objective 2 Programme. On 12 November 2001, a joint meeting between representatives from the Objective 3 and the Objective 2 Management Committees was also held in order to discuss a proposal for virement between operational measures in the Objective 3 Programme.

In the context of the co-ordination of activities between the Objective 2 ERDF Programme and the Scottish Objective 3 ESF Operational Programme, there has also been a developing level of collaboration and co-operation in the mainstreaming of the horizontal themes of sustainable development and equal opportunities. This has involved for example, membership from the Objective 3 Programme Management Executive staff on the original Sustainable Development Policy Group with a view to exchanging good practice and promoting consistency of approach between the two programmes. This mutual collaboration and exchange builds upon the experience in the East of Scotland on Sustainable Development and also acknowledges that the Scottish Objective 3 Programme has developed particular expertise and experience in the field of equal opportunities. This collaboration will continue and will be further enhanced through appropriate membership from the Objective 3 PME on the reformed Key Policies Group in 2002.

5.4 Action Taken to Promote the Horizontal Themes

5.4.1 Strategic Importance of the Horizontal Themes

The horizontal themes are at the very heart of the economic reconversion strategy for the East of Scotland Objective 2 Programme Area. They underpin both the strategic aim and objectives of the Programme. The Partnership in the East of Scotland is committed to pursuing the central objective of fully integrating the horizontal themes, in particular sustainable development and equal opportunities, by embedding good practice across all mainstream activities. In pursuing such an ambitious aim, the Partnership recognises that in order to bring about positive change it requires not only a change in attitude to these key policy areas but the fostering of a new culture of development which is founded on the concept of sustainable development. It is recognised that this is not something that can be produced in a short timescale and perhaps realistically may not be achievable in the current programming period. However, with continued support through dedicated practitioner workshops, improved guidance and the promotion of examples of good practice, improvements in current practice and a gradual shift towards a more equitable, inclusive and sustainable economy in the East of Scotland may be achieved.

5.4.2 Integrating Sustainable Development and Equal Opportunities

The Programme Monitoring Committee (PMonC) at its meeting on 10 September 2001 agreed the mainstreaming action plan for sustainable development. This document had been developed by the Sustainable Development Policy Group whose terms of reference and membership had been agreed by the PMonC at its meeting in March 2001. Also in 2001 work had been undertaken in drafting a mainstreaming action plan for equal opportunities. However, mindful of resource constraints and not wishing to see the proliferation of policy groups, a proposal was put to the PMonC to investigate the possibility of conjoined working on mainstreaming both sustainable development and equal opportunities. This was partly in recognition that to embed good practice irrespective of the policy field often requires a similar approach. In order to explore this issue further a workshop was organised in October 2001 involving an equal number of individuals from the existing Sustainable Development Policy Group and individuals from the Equalities organisations. The workshop was facilitated by an independent consultant with particular expertise in equalities issues. The outcome of this workshop was an endorsement of the holistic definition of sustainable development that encompasses equal opportunities and has been embraced in the East of Scotland. This model recognises that although environmental imperatives are a crucial driver, economic well being and social justice are equally important. However, there was also a recognition that the profile of equal opportunities required to be raised and that certain aspects of the current guidance for applicants and the existing twelve sustainable development core criteria, required to be re-visited to ensure that equal opportunities is visible and explicit throughout. Importantly, there was an acknowledgement that it was unnecessary and in the longer term unproductive to create a separate Equal Opportunities Policy Group and that an expanded Sustainable Development Policy Group incorporating new and additional members with equalities expertise and experience should be formed and renamed the Key Policies Group.

5.4.3 Partnership Training and Awareness Raising

During 2001, a series of awareness raising and training workshops were held with project applicants. The primary purpose of these workshops was to enable applicants to gain a better understanding of the twelve sustainable development core criteria and to allow them to address the criteria more effectively in project design, development and delivery. These criteria form the basis for project selection and appraisal within the East of Scotland Objective 2 Programme.

The six workshops were held throughout the Programme Area and followed a standard format i.e. after an initial presentation, the workshop examined a number of projects against the twelve sustainable development core criteria. The projects presented and discussed at these workshop sessions ranged from well-established projects in receipt of ERDF funding to potential project ideas at an early stage of development. Similarly those who took part also ranged from some very familiar with the Programme, including advisory group members, through to those relatively new to the European Structural Funds.

Feedback from the workshop process has been very positive to date and all project presenters found the use of “live” projects helpful and productive. Some participants have also suggested that the workshops might be used more generally as a standard part of devising project applications, and that similar workshops might be beneficial for the advisory groups. Interestingly, it often emerged from the workshop sessions that some projects originally viewed as primarily economic and social had more to contribute environmentally than initially appreciated. Conversely projects which might be seen as primarily environmental, such as the management of moorlands and woodlands, have the capability of generating significant economic and social benefits.

There are plans to continue the programme of workshops in 2002. These new workshops will seek to incorporate assessments of ESF projects and will also address more effectively the integration and mainstreaming of equal opportunities. In addition the renamed Key Policies Group, which has the task of overseeing the mainstreaming of the horizontal themes within the Programme, will be developing additional guidance and considering ways to disseminate emerging best practice.

5.4.4 Evaluating the Mainstreaming Strategy

Measuring the progress to date in mainstreaming the horizontal themes and indeed measuring the effectiveness of the general mainstreaming approach adopted is not a straightforward exercise and is not one that can be assessed purely as a quantitative assessment. It is felt that to rely exclusively on the monitoring reports and assessments by applicants available through the ERDF claims process is unlikely to provide a sufficient basis to properly determine progress and to measure the effectiveness of the approach. In order to establish a proper assessment of the mainstreaming approach and its effectiveness in raising awareness and inculcating improved practices, changes in behaviour and an overall attitudinal shift across the spectrum of development activities encompassed by regional economic development, it is necessary to undertake some form of qualitative assessment. Accordingly, it was decided in preparation for this AIR to undertake a separate and dedicated evaluation exercise conducted by individuals with expertise in these areas.

Report on the Pilot Study

The pilot study on monitoring progress achieved to date in mainstreaming the horizontal themes was undertaken in March 2002. The primary purpose of the study was to test the interview methodology and involved projects covering a range of economic development activity from traditional business support to social enterprise and urban regeneration. Importantly, the material gathered during these study visits added to the knowledge of projects underway in the Programme and complemented earlier material gathered through the project applicant workshops held during November 2001. The primary assessment tool used in the study was the twelve sustainable development core criteria. These criteria explicitly include consideration of environmental aspects, social inclusion and equal opportunities as well as traditional economic development criteria.

The independent consultant has reported that overall some progress has been achieved but at this stage in the implementation of the Programme progress has been limited. Progress also appears to differ according to the type of project activity. For example some new environmental and/or community based projects offer the prospect of performing well against a high number of the core criteria. Also, some traditional community economic development activities by their nature are engaged with social inclusion and are likely to be addressing equal opportunities considerations. However, the degree of involvement with environmental aspects is often variable. For conventional mainstream job creation and business support activities, particularly in areas of high technology, manufacturing and more generally in the identified growth sectors, there is a perception that their role in mainstreaming the horizontal themes and their scope for addressing integration of the horizontal themes is somewhat limited.

The Pilot Study also indicated that overall there was no antagonism but only support and enthusiasm amongst project sponsors for the mainstreaming of horizontal themes. However, project promoters often require help in having opportunities pointed out to them or support in overcoming barriers to delivering positive outcomes. More positively though, it was evident that more progress was being achieved when the partner agency itself has a formal and explicit mainstreaming policy.

An impression gained by the consultant undertaking the pilot study was that the applicants interviewed tended to rely heavily on their approved ERDF application form as the main basis for monitoring and assessing the treatment of the horizontal themes with regard to their projects. For example, where applicants have provided minimal information at application stage or formed an assessment that the particular project presents no barriers in the context of equal opportunities or environmental sustainability, then they perceive the horizontal themes to have been adequately dealt with.

Of the projects visited, a common concern expressed was the lack of any mechanism for sharing experience, learning and exchange of good practice. This is an issue that the newly formed Key Policies Group will be addressing in its work programme for 2002. It is proposed that a database of projects across a range of development activities will be established and good practice in the incorporation of the horizontal themes into project design and delivery will be highlighted.

Importantly, the consultant was able to report that several of the Partner organisations had taken on board the message about planning for the end of the Structural Funds Programme in 2006 and the likely cessation of significant levels of ERDF funding. This seems to demonstrate that sustainability in the traditional sense of durability and ongoing viability is being addressed.

5.5 Monitoring and Evaluation

5.5.1 Scottish Executive Monitoring and Evaluation Group

A Scottish European Structural Funds Monitoring and Evaluation Strategy was produced in 2001 to bring together all the regulatory and domestic requirements for the evaluation of the 2000 – 2006 round of Structural Funds Programmes, providing both a framework and a context for evaluation activities. The Strategy recommended that an evaluation forum be set up in order to promote sharing of experiences and dissemination of good practice and to ensure that regional concerns are fed into all future evaluations. The Monitoring and Evaluation Group was therefore established in 2001, comprising representatives of the Scottish Executive and the Programme Management Executives (PME). It met on three occasions during 2001 and considered monitoring and evaluation issues relating to the standardisation of indicators, ex-post evaluations, mid-term evaluations, and the Leavers Survey (ESF).

5.5.2 ERDF Grant Claims Procedure

A two-part ERDF grant claims form is the main means of monitoring the financial and physical implementation of the Objective 2 Programme for the 2000 - 2006 period. All completed ERDF claim forms are sent in the first instance to the Programme Executive who are responsible for undertaking the initial assessment of the claim against the approved project application. As well as checking that the implementation of a project is progressing according to schedule, it also provides Programme Executive staff with a range of financial and physical monitoring data detailed on the claim form. Valid claim forms are then forwarded to the Scottish Executive for final certification and payment.

In order to take account of the increased information requirements demanded in the 2000 – 2006 programming period, a new Scotland-wide ERDF claim form was introduced in 2001. To assist project sponsors to understand the new form and to outline how the claims procedure would operate, three ERDF grant claims seminars were held in the Programme Area during the year.

These development seminars were organised by Programme Executive staff in conjunction with staff from the Scottish Executive and were held in the following locations:

11 June 2001 – Midlothian

12 June 2001 – Dundee

15 June 2001 – Banff

In total, 160 people attended these three partnership seminars. Initial feedback from those who attended has been favourable, with many expressing the view that they had been extremely useful and informative. Programme Executive staff have also followed up these formal seminars with a number of one-to-one development sessions.

5.5.3 Project Monitoring Procedures

Within the context of the East of Scotland Programme, each applicant organisation is responsible for the monitoring of their individual projects. Notwithstanding this, as part of its management function the PME is also developing a Monitoring Procedures system aimed at ensuring that projects are implemented in accordance with the approved application. This system will comprise a written manual outlining the methodology for undertaking project monitoring visits and the criteria adopted for selecting which projects to monitor. Whilst no projects were formally monitored in 2001 due to the low level of physical activity in the Programme at that time, site visits and publicity checks were still undertaken by the PME during the year. A full programme of project monitoring visits is planned for 2002 and a report on these visits will appear in the 2002 AIR.

As Implementing Authority, the Scottish Executive are also required to ensure the compliance of ERDF funded projects with Commission Regulations. The Verification and Compliance Section of the Executive's European Structural Funds Division undertake these project checks. The Scottish Executive select the projects to visit by assessing a number of risk factors, including organisational capacity, total project value and past project management performance. Whilst no projects from the 2000 – 2006 Programme were formally checked by the Scottish Executive in 2001, a full programme of project verification visits is planned for 2002 and a report on these visits will appear in the 2002 AIR.

5.5.4 Post-approval Compliance Procedures

A significant feature of the Structural Funds in the 2000 – 2006 period is the requirement under Article 31(2) of Council Regulation 1260/1999 for all of the annual allocation relevant to a specific Programme to be spent by the end of the second year following the year which relates to that expenditure. This process is known colloquially as the “N+2” provision. The post-approval compliance procedures were agreed by the Monitoring Committee in March 2001 in order to improve the overall management of the Programme. They establish time limits for applicants to submit correct and regular information about approved ERDF projects. A copy of these compliance procedures can be obtained on request from the Programme Executive. In view of the high priority accorded to project implementation, the Management Committee also receives regular updates during the year on any previously committed projects where technical issues, such as a failure to confirm co-finance or resolve planning issues, are delaying their implementation. Twelve projects in this category were either formally decommitted by the Management Committee or were withdrawn by the sponsors in 2001.

CHAPTER 6: MANAGEMENT AND CONTROL ARRANGEMENTS

6.1 Introduction to Chapter

Under the terms of Article 5(1) of Regulation (EC) No 428/2001, details of the management and control systems introduced for the 2000 – 2006 European Structural Funds programmes in Scotland were submitted to the Commission on 24 May 2001. The Commission acknowledged receipt of the document on 13 August 2001. The Programme was implemented throughout 2001 in accordance with the principles of sound financial management as described in the management and control paper.

6.2 Significant Problems Identified/Corrective Actions/Financial Implications

No level 2 checks, i.e 5% substantive check of expenditure, were carried out during 2001. Projects were not approved until mid-2001 and were considered well enough advanced to provide suitable declared expenditure levels for the basis of checks. Programmes of visits will commence in January 2003. Copies of proposed programmes will be sent to the Commission, in advance, as is required. The annual visits programmes will ensure that the requirements of Article 10 of Regulation 438/2001 are complied with.

No financial irregularities were identified during the year. In addition, no significant problems have been identified to date in the Programme through monitoring and claiming activities.

No financial adjustments or corrective measures have been required during the year.

6.3 Use of Technical Assistance in 2001

6.3.1 Funding of the Programme Management Executive

There are two technical assistance measures in the SPD. Measure 4.1 is principally used to support the running costs of the Programme Management Executive (PME), which is responsible for the administration and management of the Objective 2 Programme in the East of Scotland. Measure 4.2 covers support for evaluation activities, the provision of labour market information and support to other bodies where the services provided add value to those of the PME. All technical assistance is matched by contributions from the partnership, via the charging of a management fee. One application from each of these two technical assistance measures were approved by the Monitoring Committee at its meeting held on 28 November 2000. ERDF grant totalling £2,151,271 and £398,250, which covers the costs of the PME for the programme period, was

committed in principle from Measures 4.1 and 4.2 respectively. Thereafter the Monitoring Committee will approve the annual business and operational plan for the PME subject to satisfactory performance. The principal activities undertaken by the PME include:

- servicing the various committee and advisory group structures;
- ensuring administrative compliance with EU regulations;
- providing advice, information and guidance to applicants;
- processing application forms including technical appraisal;
- processing grant payment claim forms;
- monitoring and evaluation activities;
- promotion of the Programme; and,
- carrying out the formal reporting requirements under the Structural Funds Regulations.

6.3.2 Other Technical Assistance Initiatives

The key technical assistance initiative supported in the Programme, other than for the costs of running the PME, was for the provision of Labour Market Information (LMI). The Scottish Co-ordination Team and Structural Funds Liaison Group had discussed the requirements for LMI across all the Scottish Programme Areas during 2001 and agreed that initially for a period of 12 months from 1 January 2002, a two-tier system would operate. This was in part a consequence of the need to ensure that these LMI activities were complementary to and did not duplicate the prospective work of Future Skills Scotland. The Scottish Objective 2 Programmes and the Highlands and Islands Special Transitional Programme agreed to establish LMI projects for their respective Partnerships. These would be based on previously funded projects such as the Labour Market Information Project supported under the previous Eastern Scotland Objective 2 Programme 1997 – 1999, but would each have a requirement for the provision of core data. It was envisaged that the annual cost for the LMI service in the East of Scotland would be between £40,000 - £50,000. To complement this area specific service, the Objective 3 PME would also commission a pan-Scotland project in order to monitor and review the quality and consistency of the data produced by the Programme Area projects. This dual approach to LMI would help ensure a consistency in the provision and interpretation of data for applicants irrespective of their geographical location, enhance Objective 2/Objective 3 complementarity and provide specific information for monitoring purposes.

At their meeting on 10 September 2001 the SPD Monitoring Committee agreed the consultancy brief and terms of reference for the East of Scotland LMI service. The brief was issued to five consultancy organisations with a known expertise in this field and a Steering Group drawn from members of the partnership was convened to manage the project. All five consultancy companies submitted bids and the interviews were held on 2 November 2001. The contract for the East of

Scotland Labour Market Project was awarded to YellowBook Ltd on 13 December 2001.

CHAPTER 7: CO-ORDINATION AND COMPATIBILITY WITH COMMUNITY POLICIES

7.1 Introduction to Chapter

In line with Article 12 of Regulation 1260/1999, operations financed by Structural Funds must conform to the provisions of the Treaty, with the instruments adopted under it and with Community policies and actions on the following:

- rules of competition;
- award of public contracts;
- environmental protection; and,
- elimination of inequalities and the promotion of equality between men and women.

This chapter shows how during 2001 the East of Scotland Objective 2 Programme ensured conformity with these European Community policies. It also highlights a number of initiatives undertaken within the framework of the Programme. In addition, it describes steps taken to address and ensure co-ordination of all Community structural assistance.

7.2 General Compliance

As part of project appraisal process, applicants were required to confirm that all bids for funding met the relevant EU and national regulations governing the environment, state aid, public procurement and equal opportunities. Compliance with these policies was also checked as part of the routine project monitoring undertaken throughout 2001.

7.3 Competition Policy (State Aids)

All ERDF projects requiring state aid approvals were required to have notifications and approvals in place in order to receive the offers of grant.

7.4 Environmental Policy

For the 2000 – 2006 programming period, a concordat was drawn up between the Scottish Executive and the Scottish environmental agencies, Scottish Natural Heritage (SNH) and the Scottish Environmental Protection Agency (SEPA) which established their respective roles in the current round of Structural Fund programmes.

Through their participation in the Programme committee structure during 2001, SNH and SEPA played an active part in ensuring that projects considered for funding were compatible with Community and national environmental policies

7.5 Consistency Between Funds - EIB

The Scottish Executive Structural Funds Division, as well as acting as Managing Authority for the Structural Funds programmes in Scotland, leads on co-ordination of Scottish Executive contact with the European Investment Bank (EIB), thus facilitating co-ordination and consistency between use of the funds. In 2001 the Scottish Executive facilitated several contacts with the EIB, including for example discussion on the implementation of waste strategies; the commercialisation of academic research and the proposed Glasgow housing stock transfer. None of these has as yet provided a direct read across to Structural Funds projects.

7.6 Global Grants

Currently, no global grants operate under the Programme.

7.7 Large Projects

No large projects were submitted in 2001.

7.8 Communications Action Plan

During 2001, a number of activities consistent with the Communications Action Plan within the Programme Complement were undertaken. As an extensive series of application seminars were undertaken in 2000, 2001 was more focused on providing guidance and advice on the Programme. This was done through more written material, face-to-face surgeries and the launch of the partnership newsletter in May 2001.

Website

The partnership website – <http://www.esep.co.uk> – is also an important method of communication where updated information on the Objective 2 Programme and the application process is regularly posted. The website was launched in 2000, but was further improved during 2001. Once fully operational, it will contain details on:

- Programme Structures - membership and roles of Committees and Advisory Groups, minutes of meetings;
- Application process advice and guidance;
- Details of Priorities and Measures with case studies;
- Horizontal theme guidance and case studies;
- Downloadable documents – Programme complement, ERDF application and claim form packs, guidelines and advice and AIR's; and,
- Programme news updates.

Seminars on the Completion of ERDF Claim Forms

As outlined on pages 78 – 79, a series of seminars were carried out throughout the Programme Area on the completion of ERDF claim forms. These were undertaken both on a geographical basis to ensure all partners had easy access along with separate workshops for larger organisations in the partnership.

Seminar for Advisory Group Members

Prior to the first application round, a training seminar was held for all nominated members of the three advisory groups. The seminar was held in Dunfermline on 23 March 2001.

Guidance and Documents

A coherent set of information accompanies the ERDF approval packs and provides applicants with various conditions of grant, monitoring, publicity and claiming information.

News Releases

In conjunction with the Scottish Executive, press releases on the list of approved projects are issued following meetings of the Management Committee. During 2001, these press releases coincided with visits to a number of projects by the then Minister for Finance, Angus Mackay.

Planned Activity

During 2002 the focus for communications activity will be on undertaking seminars across the East of Scotland to update partners and the public on the progress and new operational developments under the Programme. In addition, there will be targeted training workshops on the horizontal themes and the production of a newsletter with an executive summary of the progress to date.