

EAST OF SCOTLAND OBJECTIVE 2  
PROGRAMME 2000 - 2006

# ANNUAL IMPLEMENTATION REPORT 2002



Europe and Scotland  
Making it **work together**



# EAST OF SCOTLAND OBJECTIVE 2 PROGRAMME 2000 - 2006

## ANNUAL IMPLEMENTATION REPORT 2002

### TABLE OF CONTENTS

CHAPTER TITLE	PAGES
<b>CHAPTER 1: INTRODUCTION</b>	<b>1 - 2</b>
1.1 Introduction to Programme	1
1.2 Summary of Progress to Date	1 - 2
<b>CHAPTER 2: CHANGE IN GENERAL CONDITIONS</b>	<b>3 - 25</b>
2.1 Policy Context	3 - 8
2.2 Regional Socio-economic Trends	8 - 25
<b>CHAPTER 3: PROGRAMME IMPLEMENTATION</b>	<b>26 - 73</b>
3.1 Financial Implementation of Single Programming Document	26 - 27
3.2 Analysis of Programme Priorities and Measures	28 - 71
3.3 Modifications to the Programme Complement	71
3.4 Actions in Favour of EES and NEAP	71 - 72
3.5 Horizontal Themes	72 - 73
<b>CHAPTER 4: PERFORMANCE RESERVE</b>	<b>74 - 77</b>
4.1 Assessment against Agreed Performance Reserve Indicators	74 - 77
4.2 Changes to Performance Reserve Indicators	77
<b>CHAPTER 5: STEPS TAKEN TO ENSURE QUALITY AND EFFECTIVENESS OF IMPLEMENTATION</b>	<b>78 - 102</b>
5.1 Programme Implementation Arrangements	78
5.2 Programme Committees and Groups	78 - 83
5.3 Objective 2/Objective 3 Co-ordination	84 - 85
5.4 Action Taken to Promote the Horizontal Themes	85 - 99
5.5 Monitoring and Evaluation	99 - 102
5.6 Business Process Improvements	102

<b>CHAPTER 6: MANAGEMENT AND CONTROL ARRANGEMENTS</b>	<b>103 - 105</b>
6.1 Introduction to Chapter	103
6.2 Significant Problems Identified/Corrective Actions/Financial Implications	103
6.3 Use of Technical Assistance in 2002	103 - 105
<b>CHAPTER 7: CO-ORDINATION AND COMPATIBILITY WITH COMMUNITY POLICIES</b>	<b>106 - 111</b>
7.1 Introduction to Chapter	106
7.2 General Compliance	106
7.3 Competition Policy (State Aids)	106 - 107
7.4 Environmental Policy	107
7.5 Award of Public Contracts	107 - 108
7.6 Consistency Between Funds - EIB	108
7.7 Consistency Between Funds – LEADER +	109
7.8 Consistency With Common Agricultural Policy (CAP)	109
7.9 Global Grants	109
7.10 Large Projects	110
7.11 Communications Action Plan	110 - 111

## LIST OF ANNEXES

<b>APPROVED SPD FINANCIAL TABLES</b>	<b>ANNEX 1</b>
• Initial Indicative Financial Allocations for Programme	<b>ANNEX 1 (i)</b>
• First Revised Programme Complement Financial Tables	<b>ANNEX 1 (ii)</b>
• Second Revised Programme Complement Financial Tables	<b>ANNEX 1 (iii)</b>
<b>SUMMARY TABLES OF EXPENDITURE COMMITTED AS AT 31 DECEMBER 2002</b>	<b>ANNEX 2</b>
<b>SUMMARY TABLES OF DECLARED EXPENDITURE AND GRANT PAYMENTS MADE AS AT 31 DECEMBER 2002</b>	<b>ANNEX 3</b>
<b>SUMMARY TABLES OF EXPENDITURE PROGRAMMED, COMMITTED AND PAID AS AT 31 DECEMBER 2002</b>	<b>ANNEX 4</b>
<b>COMPLETE LIST OF ERDF PROJECT COMMITMENTS MADE AS AT 31 DECEMBER 2002</b>	<b>ANNEX 5</b>
• Commitments in Eligible Areas	ANNEX 5 (i)
• Commitments in Transition Areas	ANNEX 5 (ii)

## CHAPTER 1: INTRODUCTION

### 1.1 Introduction to Programme

The year 2002 represented the second year of full activity for the East of Scotland Objective 2 Programme 2000 - 2006. During the year a number of new project commitments were made and partners in the region began reporting activity on projects supported in 2001. In addition to the ongoing development and refining of the implementation arrangements for the Programme, there was also considerable business undertaken associated with the closure of the 1994 – 1996 Objective 2 Programme, the 1997 - 1999 Objective 2 Programme, the 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**.

The Commission formally agreed the Annual Implementation Report for 2001 on 25 September 2002.

### 1.2 Summary of Progress to Date

This Annual Implementation Report for 2002 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 **44%** of all available funds by the end of 2002. Overall, this represents a reasonable level of commitment, although the performance is mixed across the different Programme measures.

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 and some of these investments are now beginning to deliver actual results. However, the level of expenditure recorded to date 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 2003.

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 AIR's in 2000 and 2001 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 2002. 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'<sup>1</sup>, issued in January 2001 for the first time highlighted objectives for European Structural Funds implementation in Scotland stating; 'We will implement European Structural Funds programmes wisely to leave a lasting legacy. They are designed to provide additional support to economic development and job creation and to equip people with the skills required to compete in labour markets; a key change from previous programmes is the new emphasis on social justice, sustainable development and equal opportunities.' The initiatives and work undertaken in the course of 2002 reflects these aims and the document 'Recording Our Achievements'<sup>2</sup> published in December 2002 reported that progress towards this objective was ongoing. Other policy documents such as 'A Smart Successful Scotland'<sup>3</sup>, the Executive's strategy for enterprise networks, and 'Social Justice...a Scotland where Everyone Matters'<sup>4</sup> continue to have relevance for the implementation of the Structural Funds.

#### ***2.1.2 The Scottish Parliament***

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

---

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

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

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

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

The European Committee continued its important role in scrutinising the administration, management and delivery of the European Structural Funds. In July 2002 it published a 'Report on the Inquiry into the Future of Cohesion Policy and Structural Funds Post 2006'<sup>5</sup>. 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 2000 Report on the Review of the Programme Management Executives which 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<sup>6</sup> gave a commitment to carry out a further review of the PMEs in 2003. Preparatory work for this review was carried out in 2002.

### ***2.1.4 Scottish European Structural Funds Forum (SESFF)***

The Scottish European Structural Funds Forum is a key strategic body which meets on a regular basis. Its membership is appointed by Ministers and comprises senior individuals from various sectors involved with Structural Funds. The Forum provides a strategic overview of Structural Funds and met twice during 2002 when it discussed issues arising from the day-to-day implementation of Structural Funds over the last year including N+2, the Business Process Review, simplification and the future of Structural Funds.

### ***2.1.5 Policy Statement of Scottish Minister for Finance and Local Government***

The Structural Funds policy statement made in August 2001 by the then Scottish Minister for Finance and Local Government, Angus MacKay, continues to provide strategic guidance on the implementation of the current Structural Funds Programmes in Scotland. The statement considered the necessary steps to achieve the key objectives outlined in the Scottish Executive policy statement "Working Together for Scotland,"<sup>7</sup> both at strategic and programme specific levels and focused on the following areas:

- The need to further integrate Structural Funds policies with existing Scottish Executive and area based strategies;

---

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

<sup>6</sup> The full report is at: <http://www.scotland.gov.uk/library2/doc12/rpme-00.asp>

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

- The need to further integrate the horizontal themes into the Programmes;
- The need to emphasise assessing performance in project appraisal;
- 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 was furthered during 2002. Work on the establishment of a streamlined IT system was also ongoing in 2002.

### **2.1.6 Scottish Executive Policy Developments**

#### Introduction

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

- *Better communities in Scotland: Closing the gap*<sup>8</sup> (June 2002): The SE's Community Regeneration Statement
- *Scotland's Economic Future*<sup>9</sup> (February 2002): Strategy for Economic Development
- *Meeting the Needs...Priorities, Actions and Targets for sustainable development in Scotland*<sup>10</sup> (April 2002): The Scottish Executive's statement on Sustainable Development (4/2)

---

<sup>8</sup> Document available at <http://www.scotland.gov.uk/library5/social/bcis-00.asp>

<sup>9</sup> Document available at <http://www.scotland.gov.uk/library3/economics/sef-00.asp>

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



- *Connecting Scotland our broadband future: Making it Happen*<sup>11</sup> (December 2002): Update to the Executives Broadband Strategy (12/2)
- *Tourism Framework For Action 2002:2005*<sup>12</sup> (March 2002): Scottish Executive policy on Tourism within Scotland.

### **2.1.7 Horizontal Themes**

#### Introduction

The mainstreaming of both sustainable development and equal opportunities were priorities for European Structural Fund programmes in Scotland in 2002 in line with Scottish Executive initiatives and going beyond the basic requirements of the programmes.

#### Sustainable Development

The Scottish Executive remains committed to sustainable development underpinning its overall policies and programmes in the environmental, economic and social areas. The Executive has defined sustainable development as "...development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

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 three occasions in 2002.

A European Partnership Officer (EPO) was appointed as a national resource for sustainable development. The Scottish Environment Protection Agency and Scottish Natural Heritage jointly committed funds to establish this post for the period December 2001-March 2003. The Officer's remit has been to act as national resource to assist and advise in relation to the mainstreaming of the sustainable development horizontal theme across the 5 Scottish Programmes. In practice, this has involved four separate, but interlinked, components:

- Co-ordination of the assessment of the sustainable development theme within the context of mid-term evaluations of Scotland's European programmes. This has included drafting the sustainable development annex for the MTE Core Terms of Reference and participation in each of the 5 MTE Steering Groups;

---

<sup>11</sup> Document available at <http://www.scotland.gov.uk/library5/lifelong/csb-f-00.asp>

<sup>12</sup> Document available at <http://www.scotland.gov.uk/library3/tourism/tfar-00.asp>

- National level policy analysis for dissemination amongst interested parties. This has included reviews of environmental sustainability content in ERDF Priority One applications and in ESF Objective 3 applications;
- Targeted support for specific European Partnerships in Scotland. This has involved sustainable development presentations to particular target groups within Partnerships and the drafting of guidance material; and,
- Co-ordination of SEPA/SNH input into the Structural Funds implementation process through the establishment of the SEPA/SNH Structural Funds Forum.

The Sustainable Development Forum continued to focus on the following issues:

- Pooling knowledge and experience of Sustainable Development, promoting good practice, providing guidance and support where necessary and increasing understanding of Sustainable Development between Programme Management Executives;
- Monitoring the progress of the five Scottish Programme management Executives in the mainstreaming of Sustainable Development into training and project applications;
- Forging links with other bodies involved in the promotion and development of the Horizontal Themes;
- Discussion of proposals for a minimum standard of Sustainable Development information requested on project application forms;
- Keeping abreast of initiatives emanating from the Equal Opportunities Forum;
- Hosting of workshops by Programme Management Executives to promote the Horizontal Themes with partners, applicants and advisory groups and Programme staff;
- Forging links with English Departmental Sustainable Development Groups;
- Follow up action to the Nordrhein Westfalen Project;
- Linking to the work of the Scottish Executive's Sustainable Development Team; and,
- Looking at ways of embedding sustainable development into projects.

## Equal Opportunities

The Equal Opportunities Forum, which was established in 2000 with a remit to advise on the mainstreaming of equal opportunities across the structural funds programmes, met three times in 2002. It considered a wide range of issues including accessibility of forms; common issues and obstacles; mid term evaluations and lessons from EQUAL. The Forum also made links with the Equal Opportunities committee of the Scottish Parliament. An Equal Opportunities Adviser was appointed to provide advice across the Structural Funds programmes in Scotland.

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

The Scottish Executive's Equality Strategy published in November 2000<sup>13</sup>, 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 reviews the most relevant and significant socio-economic changes and events in 2002. It provides coverage of developments in the East of Scotland as well as in the wider socio-economic context.

Commentary on the "East of Scotland" generally refers to an aggregation of the thirteen local authority areas containing Objective 2 eligible and transition areas, plus Aberdeen. Whilst not corresponding exactly with the Programme Area, this geography forms a series of more recognisable economic and labour market areas. Many of the statistics used to construct an up to date picture of recent events are also only available at local authority-level or above.

---

<sup>13</sup> The strategy can be found at: <http://www.scotland.gov.uk/library3/social/wtem-00.asp>

### **2.2.2 Major Socio-Economic Events over the Year**

The East of Scotland's performance against key socio-economic indicators in the year 2002 is perhaps best described as mixed.

The East of Scotland – as other regions – is heavily influenced by the national and international context. Scottish economic performance in 2002 saw negligible economic growth, and for the early part of the year the country was actually in recession. Much of the cause of the economic weakness was attributed to the rapid and large-scale contraction in the electronics sector.

Across the UK, economic performance was more favourable. Growth was slower than expected, with downward revisions of expectations and forecasts, but the UK fared relatively well when viewed against many of its competitors.

The OECD attributed the UK's positive performance to a number of factors:

- strong household demand, driven by low interest rates and rising wealth;
- growth in public expenditure, growing external demand and a revival of investment; and,
- a stable macroeconomic environment, supported by monetary and fiscal policy.

Employment in the UK reached a ten-year high in 2002, with 28m people in work, and unemployment at the lowest levels in two decades (around 1.5m (5%) on the International Labour Organisation (ILO) measure). However, there was clear evidence of a “two-speed” economy. Whilst employment and economic growth was driven by the service sector, manufacturing continued to shed labour. The final quarter of 2002 saw the lowest number of UK residents employed in manufacturing since the data series began in 1985.

In the East of Scotland, there were improvements in some of the sectors that had experienced difficulties in 2001, most notably agriculture and tourism. Much of the service sector continued to see growth, driven by strong consumer spending and house price inflation, although there were increasing signs in the latter part of the year – confirmed in 2003 to date - that this growth was abating.

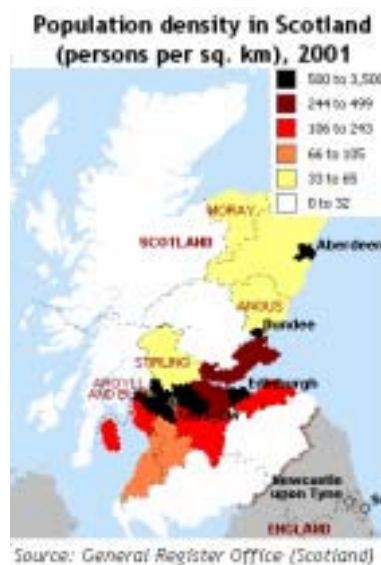
Manufacturing industry continued to experience extremely difficult conditions, with further major closures and redundancies in several sectors, most notably electronics.

### 2.2.3 National and Regional Economic Review

#### Population

In 2001, the East of Scotland had a population of 2.3m, 46% of Scotland's total. The Lothian area accounts for over a third of the region's population, with a large share of this attributed to Edinburgh<sup>14</sup>.

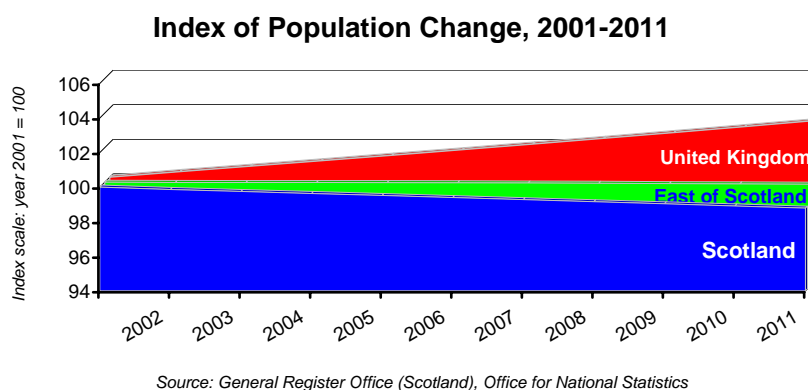
The region's population – as with Scotland as a whole - is heavily concentrated in the central belt, with the only the more northern and western areas of Stirling, Angus, Perthshire & Kinross, Aberdeenshire and Moray being less densely populated than the Scottish average (66 persons per square kilometre).



Over the past decade, the population of Scotland has declined slightly, and is forecast to decrease a little further over the ten years to 2011. Conversely, the East of Scotland population level is projected to remain stable following a modest increase in the 1990s. Increases in Lothian and Forth Valley will counter projected decreases in Tayside, Moray and Grampian. UK population growth has been – and is expected to continue to be – much stronger than in Scotland.

The East of Scotland's age structure broadly reflects that of both Scotland and the UK, and the share of residents of working age (16-59/64 yrs) across each of the five Local Enterprise Company (LEC) areas and Moray is similar.

<sup>14</sup> most of Edinburgh and all of Aberdeen – the two largest cities in the East of Scotland do not qualify for Objective 2 Programme coverage

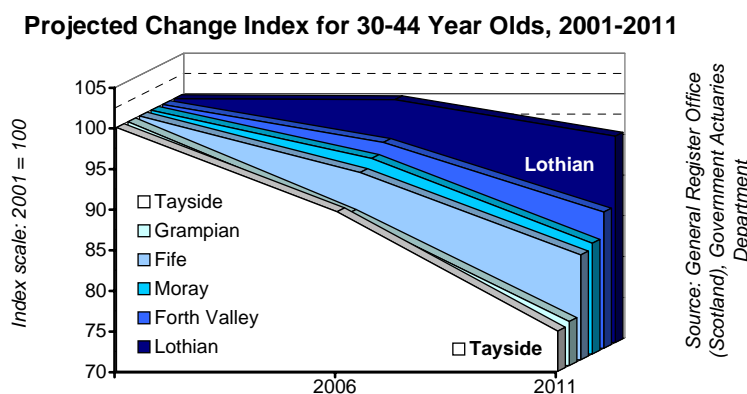


Changes within the population by age group are more dramatic and potentially far-reaching than those for the total sum of residents. Projections for 2001-11 illustrate the changes in key economically active age groups in the East of Scotland:

- the 15 – 29 years age group is set to increase very slightly
- in contrast the 30 – 44 years age group is forecast to decrease by 15%, with corresponding increases in the 45 – 59 years group.

These projections differ only slightly from the UK's but the rate of decline in the 30-44 year old group is less across the UK (-9%). Within the East of Scotland, Grampian and Tayside are expected to see the greatest reduction in this age group - by approximately 25%. Lothian and Forth Valley - although also expecting decreases - will be the least affected by the decrease in this key working age group.

These trends – though barely perceptible on a year-by-year basis – will significantly alter the region's demographic balance and workforce structure over the next 20 years.

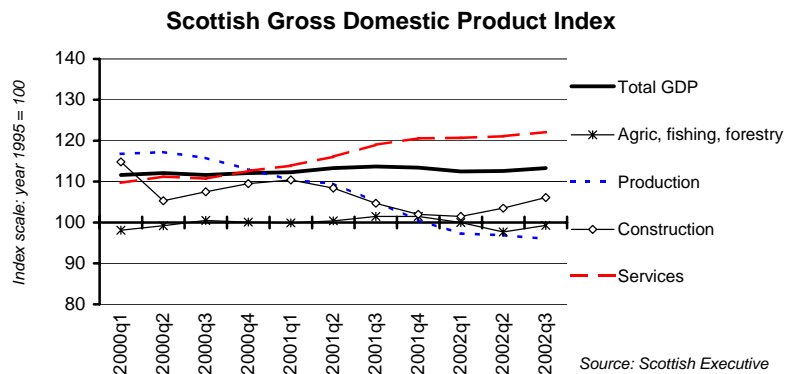


## Growth and GDP

There is relatively little sub-Scotland level economic and output data for 2002. However, as the East of Scotland accounts for almost half of Scotland's jobs and population, national data remains relevant.

Scottish GDP rose by only 0.1% in the 4 quarters to 2002q3<sup>15</sup>. The UK comparison change was 1.3%. The third quarter's 0.6% growth followed a mild recession in the first quarter of 2002 – but even this undershot the UK average (0.8%).

There was a large disparity in the performance of the manufacturing and service sectors. In the 4 quarters to 2002 Q3, output in the Scottish service sector grew by 5%, compared with a 13% *decline* in manufacturing. These changes are more extreme than for the UK as a whole where the service sector grew by 2.5% and manufacturing contracted by 5%.



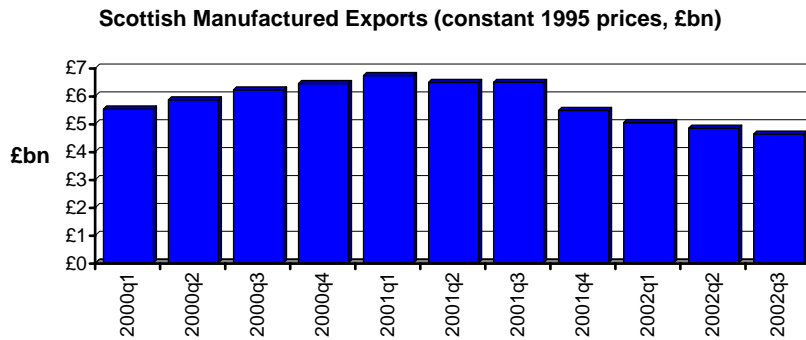
There was also a polarised picture in construction, with the Scottish sector shrinking by 5%, in contrast to a 7% increase across the UK generally.

Scotland's industrial structure, which contains heavy representations of foreign-owned (especially electronics) manufacturing, financial services, and mobile customer service functions (call centres, also often owned externally) means that it is not only vulnerable to difficult global conditions but also to the vagaries of these sectors.

Inward investment has been a key source of employment and economic growth for the East of Scotland over the last decade and more. Many of the industries attracted to the region also had a high propensity to export, generating further income for the area. Both inward investment and export income have been much reduced since 2000.

<sup>15</sup> source: Scottish Executive provisional estimates

The region's income from manufactured export sales in 2000<sup>16</sup> was around £8bn, almost two-thirds of which was attributable to electronics. The Scottish picture as a whole was similar, with 67% of the £19bn due to that single sector. Other sectors – mostly oil-related – accounted for a further £10bn.



*Source: Scottish Executive*

Latest data suggests that there was a 24% decrease in the value of Scottish manufactured exports in the year to Autumn 2002. Electronics accounted for the largest share of this (decreasing 34%) and their share of the quarter's exports was "only" 46%. Food and drink also suffered a 28% decline in the value of its exports.

Inward investment activity is also likely to have dipped sharply in 2002. Data to 2001 showed that the number of incoming projects had fallen from 47 in 1997 to 12 in 2001<sup>17</sup>. The UK is expected to see massively reduced (up to three quarters) inward investment activity in 2002, with Scotland expected to fare particularly poorly as a result of diminishing investment flows, and increased competitions from emerging locations such as central Europe.

After a faltering performance in 2002, prospects for renewed global and UK economic growth look better for the latter half of 2003. However, much depends on the resolution of the conflict in the Middle East, although even then Scotland's prospects appear less favourable than those of the rest of the UK. Forecasters opinions are currently divided on whether recession can be avoided.

<sup>16</sup> the latest published sun-national data, excluding alcoholic spirits

<sup>17</sup> source: Ernst & Young Inward Investment Monitor



The number of businesses in the East of Scotland was broadly stable over the 2001-02 period. Increases in the number of post and telecom, health and education organisations were offset by losses in retail, transport and finance. Many of these changes are likely to be due to changes in the status of existing organisations (e.g. takeovers, de-mergers, etc.) as opposed to business “births” and “deaths”.

The region retains a relatively low business stock<sup>18</sup> compared to the British average, suggesting slightly lower levels of entrepreneurship.

#### **2.2.4 Employment**

##### Total Employment

At the beginning of 2002 there were 1.1m employee jobs in the East of Scotland, 48% of the Scottish total. Additionally, around 114,000 residents were self-employed.

The service sector accounts for around 80% of jobs but the East of Scotland has notable concentrations of employment in primary and extractive industries, manufacturing and construction.

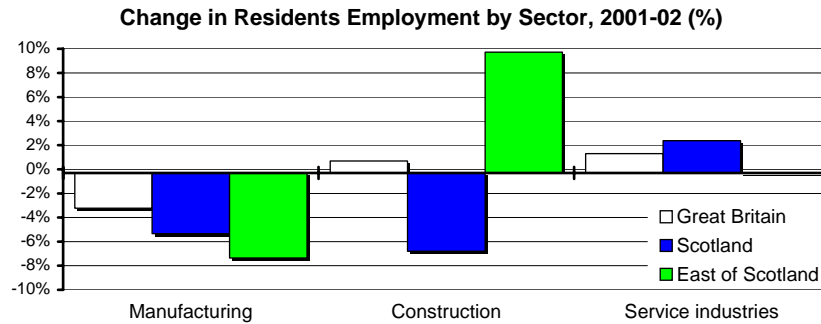
In broad terms, and in most areas of the East of Scotland, primary and manufacturing employment has decreased over the last five years, while service jobs have increased. ESEP's Labour Market Annual Report for 2002 found that whilst jobs increased by 8%, from 1996-2001 the number of *residents in employment*<sup>19</sup> was virtually static in 2002. This compared to a small increase for Britain as a whole.

This performance was due to the region's poorer manufacturing employment picture (an estimated 7% decrease in the number of the region's residents employed) and an end to the increased employment in the service sector. The latter was in contrast to the rest of Scotland where a net 45,000-50,000 more people worked in services in 2002.

---

<sup>18</sup> 24 VAT registered enterprises per 1,000 population compared with a British average of 27

<sup>19</sup> this is a slightly different measure from the number of jobs. Data on the number of jobs is not available for 2002.



*Source: Labour Force Survey (Office for National Statistics). Data averaged across 4 quarters of each year to provide an annual estimate. Based on the residents employed in each sector, rather than the number of jobs.*

Whilst Lothian saw a minor increase, Tayside and Fife experienced a slight decline in the number of working residents. North East Scotland and Forth Valley saw virtually no change.

Employment forecasts – though subject to great uncertainty – suggest that employment in the East of Scotland and Scotland is forecast to increase slowly but steadily until 2005, by around 2% in total.

Service and construction employment are expected to be the drivers of growth, with decreases of over 10% in the primary and manufacturing sectors.

Lothian and Forth Valley are expected to experience increases approaching 3%, with Fife at 2%. Tayside and Grampian are expected to see the *least* growth in employment (0-1%).

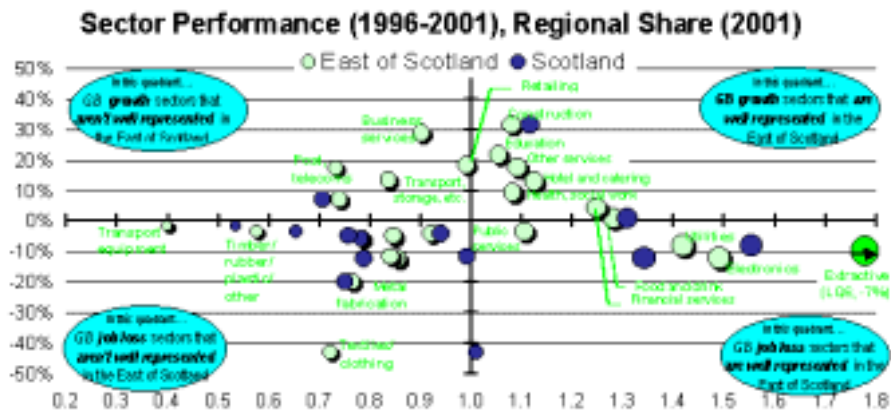
### Employment by Sector

Around 80% of employment in the East of Scotland is in the service sector. Retailing, public administration, health and social work, business and personal services account for around half of all jobs in the region.

Many service sector jobs rely on local demand and expenditure. However, the East of Scotland demonstrates some notable concentrations of employment in “tradable sectors” that play a greater part in creating wealth and compete in non-local markets. Across the entire East of Scotland region these sectors are:

- extraction (including oil and gas, mining and quarrying)
- electronics and optical equipment manufacture
- food and drink processing

- utilities (electricity, gas and water supply-related (though based on a relatively small number of jobs))
- hotels and catering
- financial services



These sectors account for around 20% of jobs and are important sources of external income. However, the important oil and gas and financial services sectors are based principally in Aberdeen and Edinburgh, areas wholly or largely outwith the Programme's eligible and transitional areas. Furthermore, three of the six identified sectors have *shrunk* in job terms and two others have grown at a below average rate. Whilst these performances reflect British averages, they may have implications for the future prospects of some of the region's key industries.

The Programme has a number of designated *strategic sectors* that are based on criteria related to actual and potential importance, and the ability of the Programme to have a positive effect on each. These sectors – which overlap with those identified above - are:

- biotechnology and life sciences
- creative industries
- food and drink
- forest products
- electronics/opto-electronics
- tourism and cultural industries

Around one-sixth of all employment in the East of Scotland is in these sectors, which were the focus of a fuller review in the Strategic Sector Reports in Summer 2002. The performance of the strategic sectors – as with the economy as a whole – during 2002 was mixed, and is briefly reviewed below.

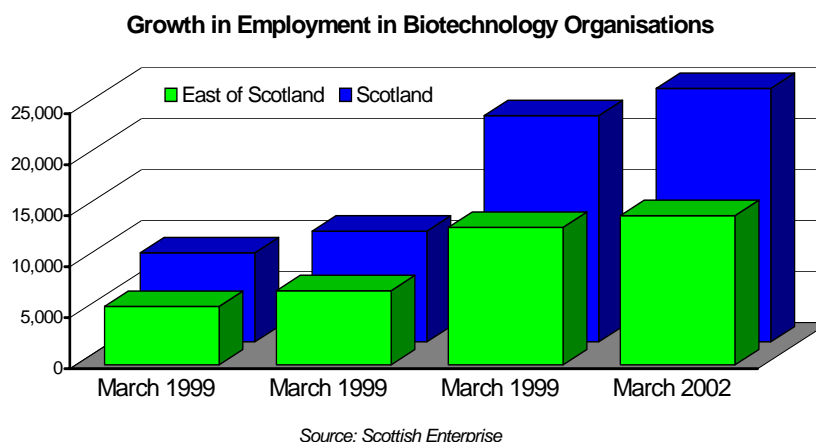
## Biotechnology

At September 2002, there were 470 organisations employing over 25,000 in the Scottish biotechnology cluster, of which the East of Scotland accounted for:

- just over half of biotechnology firms (53%)
- almost one-third of supply and support companies (31%)
- three-quarters of Scotland's 61 relevant academic research organisations and centres (74%)

Employment in the East of Scotland sector increased by almost 200% from 1999-2002, and organisations increased by 223%. The key locations for the sector are in and around the four cities of Edinburgh (including the South East Wedge/A701 Corridor), Aberdeen, Dundee and Stirling.

Despite tough global market conditions in 2002, with investors remaining wary of new and unproven companies in emerging sectors, Scottish biotechnology has performed well. Thirteen new "core" biotechnology firms were created, and private investment continued (albeit at a lower level than in earlier years), and 15 SMART awards made to the sector during 2002. Overall, around 30 new organisations and almost 1000 new jobs were created in Scotland in the 12 months to September 2002.



## Creative Industries

The creative industries span a relatively disparate set of activities "which have their origin in individual creativity, skill and talent"<sup>20</sup>. The sector is dominated by micro-businesses - around 95% of workplaces employ fewer than 10 employees, whilst self-employment is especially important.

<sup>20</sup> Department for Culture Media and Sport (DCMS (1998))

Within the East of Scotland, only Edinburgh (6,800) and Aberdeen (1,600) boasted any significant (>500) concentration of creative industries jobs in 2001. They accounted for 75% of the East of Scotland's jobs in the sector<sup>21</sup> at the beginning of 2002. Thus whilst increasing rapidly over recent years the creative industries are largely city-focused, at least in terms of their higher-value added functions.

Dundee's computer gaming activity is a good example of a sector with a less "metropolitan" focus, though geographic concentration remains key to development of a critical mass. In 2002, the sector in Dundee has been assisted through development of a digital media park.

### Electronics/Optoelectronics

At the beginning of 2002 the East of Scotland had 1.5 times the British average share of jobs in electronics. Those 28,400 jobs were notably concentrated in:

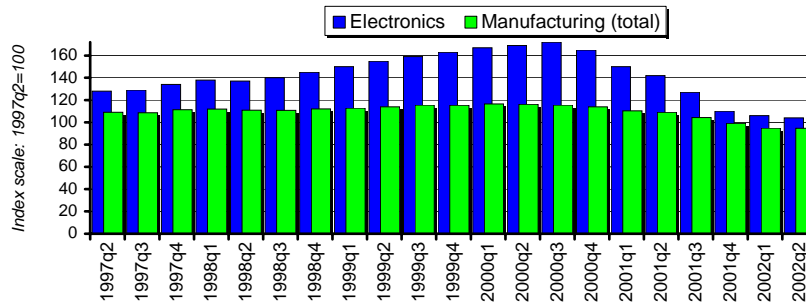
- West Lothian (9,000 jobs (and the M8 Development Corridor))
- Fife (7,600 jobs (and the Rosyth & Bridgehead area))
- Edinburgh (5,000 jobs)
- Dundee (3,000 jobs).

The stock of employment in the region's electronics manufacturing sector grew by almost 50% in the late 1990s, typically in large foreign-owned "branch" plants that were only loosely embedded in Scotland. Since 2000, it is estimated that around 10,000 electronics jobs have been lost in the East of Scotland, including a combined total of 5,000 at Motorola and NEC, the latter closing in 2002.

Recent Scottish Executive data suggests that output in the second quarter of 2002 this was one-third lower than 12 months earlier and barely above the levels of 1995.

---

<sup>21</sup> excluding data for West Lothian and Rosyth & Bridgehead where call centre jobs in Sky Subscriber Services greatly inflate the presence of "creative industries"

**Index of Production for Scottish Electronics, 1997-2002**

Source: Index of Production (Office for National Statistics). Sub-Scotland data not available.

The lack of a strong Scottish “cluster”, and the advantages of sustainability, cohesion and balance that such a feature brings, has intensified efforts to develop more specialised indigenous sub-sectors, typically much smaller in scale, but higher added value.

Opto-electronics is a relatively small segment, comprising only around 50 companies and employing around 4,000 people in Scotland. However, it has been identified as one of the most dynamic components of the Scottish electronics sector, with considerable potential. Plans were unveiled during 2002 to develop this potential through a new “chip packaging facility” in Livingston, which will further assist the commercialisation of research.

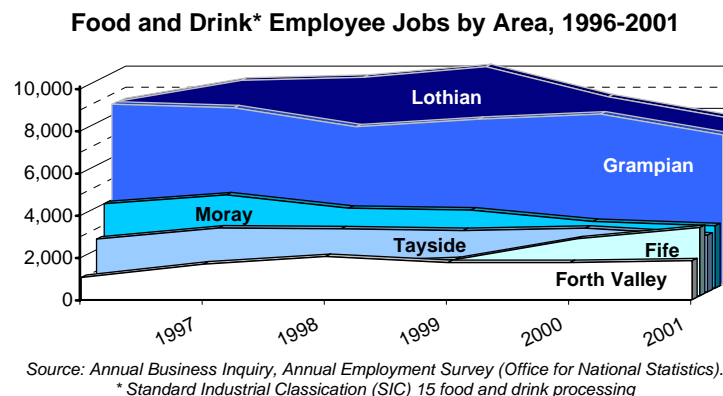
### Food and Drink

The food and drink industry is one of Scotland’s most important, generating £7.3bn in income. Whisky exports alone attract three times the income of overseas tourism (£2.3bn in 2002), and food exports contribute a further £400m.

The region’s food and drink sector provided around 25,000 jobs at the beginning of 2002 with specific concentrations in meat and fish processing, beverages (especially whisky), and with a strong focus on primary industries (agriculture and fishing) and initial processing.

Geographic concentration is also important with Aberdeenshire and Moray (especially the Coastal Moray Firth strategic location) and the M8 Development Corridor and Kirkcaldy/South Glenrothes strategic locations containing strong concentrations.

In common with other manufacturing sectors, the region's food and drink sector has lost jobs in recent years: around one-in-seven lost in the four years to the beginning of 2002. Losses – concentrated in Lothian, especially Edinburgh seem likely to have continued with the May closure announcement of Grampian Country Foods Newbridge plant, and possible fallout from the recent EU agreement reducing whitefish catching quotas. The latter development may adversely affect North East Scotland in particular, where almost all the region's fish processing jobs are found.



### Forest Products

This established sector encompasses the manufacture of wood and paper products. It provided around 10,000 jobs in the East of Scotland at the beginning of 2002, with more than half of these in Fife and Grampian.

The sector has faced difficult times in recent years, and around 2,000 jobs were lost in 2000 and 2001. Many were lost in Grampian, which has seen a third of its jobs in sector gone since 1997. Many of these were at Donside Paper where over 600 redundancies were announced in 2000 and 2001.

The paper industry had a difficult recent history, with a total of 400 jobs lost at SAPPI (Fife) and Inveresk (Fife, West Lothian) in 2002. Inveresk is a major player in the sector, and operates in Falkirk but closed facilities in Aberdeen, Clackmannanshire and Fife in 2001, with loss of around 350 jobs.

The wood products sector has also faced many recent challenges. It suffers from the problems of a fragmented structure, competition from lower cost locations, substitute materials, and by the strength of Sterling in price-sensitive export markets.

Economic development policy is attempting to nurture a more innovative sector, focused on higher value added products. An important development in this regard will be the opening of a new Centre for Timber Engineering at Napier University in 2003.

### Tourism and Cultural Industries

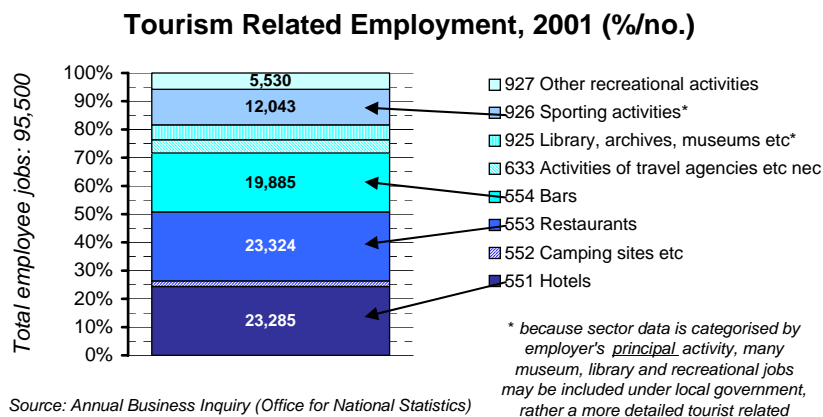
Tourism is a type of demand (based on demand by consumers from outside the area) rather than a discrete industry. As such, much employment in tourism-related businesses (e.g. bars, restaurants, and sports and leisure facilities) has been driven by local consumer expenditure.

Nonetheless, tourism remains an important income earner (worth £700m or 28% of Scotland's service exports in 2000), and the East of Scotland accounted for around half of Scotland's 19m tourists, 80m bednights and £4bn spending.

The region's 95,000 tourism and cultural related jobs represent a concentration 1.3 times the British average, and easily the largest of the strategic sectors. The share of jobs is disproportionately large in Angus, East Lothian, Moray, Perthshire & Kinross and Stirling.

The type of jobs in tourism related industries differs from that of other strategic sectors, and from the labour market as a whole:

- female part-time employees form the largest group
- full time employment is more evenly distributed between men and women than in most sectors





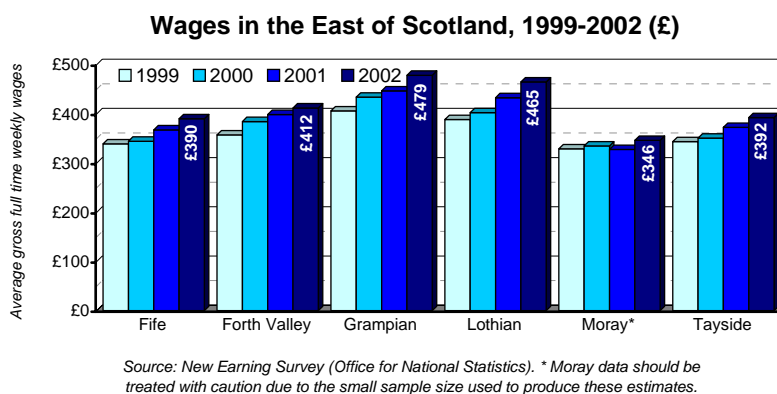
Recent growth in the region's tourism related employment (5% in 1999-2000 and 6% in 2000-01) has coincided with *decline* in the numbers of visits, nights and expenditure in the period to 2001, suggesting that the positive employment pattern may be more a result of rising (local) consumer expenditure. However, prospects for tourism and the cultural industries in 2002 appeared brighter than for some time. UK residents' visits to Scotland increased by 17% in the first half of the year, though overseas trips decreased slightly further. Operator predictions for the latter part of the year suggest an improvement on the same period in 2001, whilst hotel room occupancy and visits to attractions were also up.

Unfortunately, prospects for tourism in 2003 appear to have dimmed, as a result of war in the Middle East and falling domestic consumer confidence and expenditure. The Fraser of Allander Institute's scenarios anticipate decline in the value of tourism in both their "intermediate" and "worst" cases.

### 2.2.5 Earnings

The East of Scotland's average full time weekly wage was £439 in April 2002 (Scotland £427; Britain £463). Average wages rose in each of the last four years, from £374 in 1999 to £439 in 2002 in line with Scottish and British trends.

Lothian and Grampian have average wages (£465 and £476 respectively) and a recent rate of increase in excess of both Scotland and Britain's mean level. This is due to the effect of high wages in Aberdeen and Edinburgh. Conversely, Angus, Falkirk, Fife and Moray wages averaged less than £400.

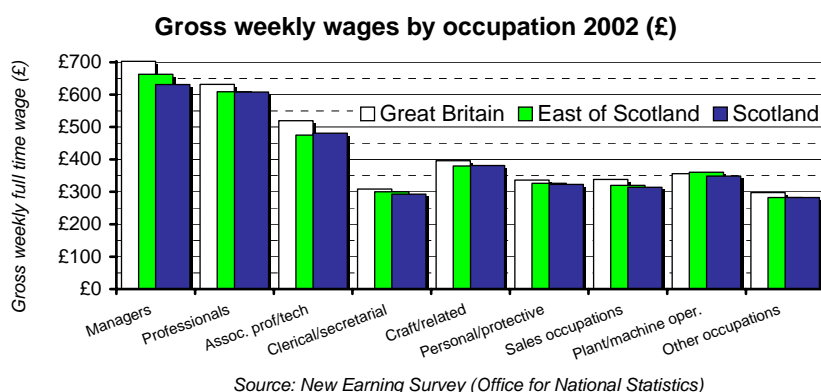


Significant variations exist by gender. The region's average hourly rate (including overtime) is £11.96, the female equivalent is just 83% of that (£9.58). Wider localised disparities can be found in Clackmannanshire, Aberdeen and Aberdeenshire where female wages barely achieve two-thirds of male levels.

Wages by occupation type in the East of Scotland are generally below the British, but higher than Scottish averages, with the exception of plant and machine operatives who earn slightly more in the East of Scotland.

Manual occupations are, on the whole, less well paid than non-manual. Non-manual workers have also experienced more rapid wage increases in recent years.

However, whilst manual occupations have a similar average wage level in the East of Scotland, Scotland and Britain, this is not the case for non-manual occupations. In the East of Scotland these occupations earn slightly less than the British average.

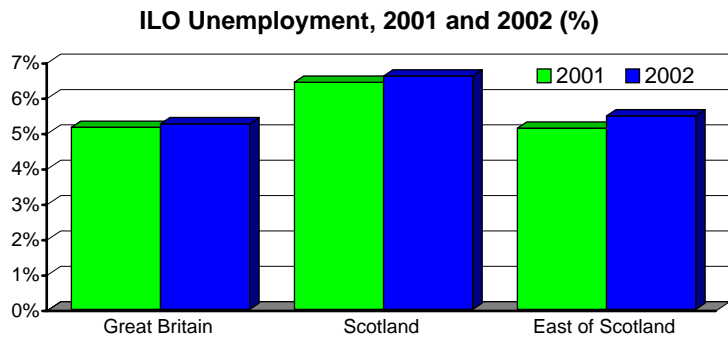


## 2.2.6 Unemployment

Data for ILO unemployment in 2002 indicates that there were around 65,000 unemployed residents (of working age) in the East of Scotland. This represents 5.5% of the economically active population, compared with a Scottish rate of 6.6%, and a British one of 5.3%.

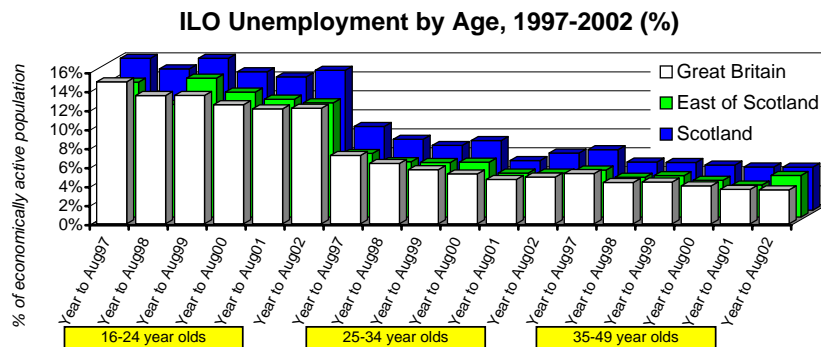
The unemployment rate has fallen since 1997 in all areas, although there is little sign of convergence between the Scottish rate and regional or British rates. However, this downward trend appears to have been reversed with all areas experiencing a slight increase from 2001 to 2002. The East of Scotland appeared to suffer most with an estimated increase of 7% in the number of unemployed.

Males in the East of Scotland have a slightly higher unemployment rate than females: 6.2% compared to 5.2% in August 2002. This disparity between genders is evident across Scotland and Britain.



Source: Labour Force Survey (Office for National Statistics). Data is based on an average of the 4 quarters, and represents the ILO unemployed of working age as a % of economically active

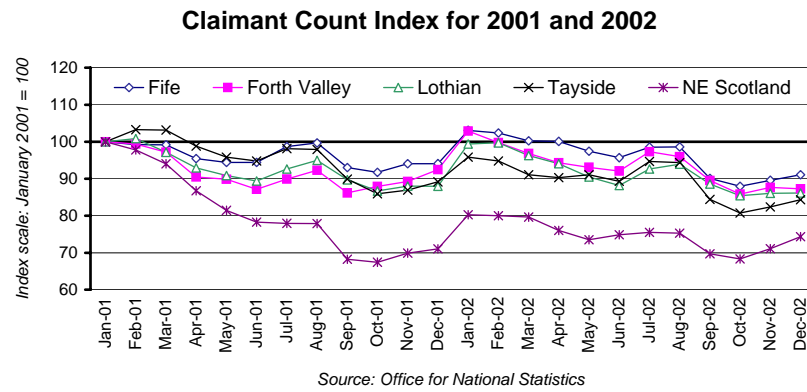
Different age groups display varying unemployment rates too. Unemployment disproportionately affects the young, with rates amongst 16-24 year olds around 2-3 times that of the 25-49 year olds. However, unemployment has generally declined over the last five years in all areas and ages, and the East of Scotland remains noticeably below the Scottish average in all cases.



Source: Labour Force Survey (Office for National Statistics). Data based on rolling average of 4 quarters for increased reliability, although East of Scotland results must still be viewed with caution. No data on 50-59/64

Within the East of Scotland, data from the unemployment benefit claimant count<sup>22</sup> shows that the average number of claimants in 2002 was lower in North East Scotland (i.e. Grampian and Moray, -7%/400 claimants) and Tayside (-6%/550 claimants). In Forth Valley (+2%/100), Fife (no change) and Lothian (-2%/100), the change was much less significant.

<sup>22</sup> reliable ILO data for sub-regional areas is not available. The claimant count is a more reliable measure but does not capture the full extent of unemployment



Overall, the region's 2% decrease (-1,000) in the claimant count was comparable with Scottish and British averages (-3% and -2%).

## CHAPTER 3: PROGRAMME IMPLEMENTATION

### 3.1 Financial Implementation of Single Programming Document

The attached **Annexes 2 - 4** provide a comprehensive suite of tables covering all aspects of the financial implementation of the Programme to date. All financial data in these tables is presented in both sterling and MEUROS for the year 2002 and on a cumulative basis giving the position as at 31 December 2002. **Annex 2** focuses on ERDF grant commitments and **Annex 3** focuses on ERDF grant payments. **Annex 4** provides this financial data on a comparative basis. **Annex 2** also presents a commitment table by field of intervention for each Programme measure.

#### 3.1.1 Level of ERDF Grant Committed and Paid in 2002

The total number and value of ERDF projects (including Technical Assistance) and the level of grant committed and paid in 2002 are listed below:

Financial Information expressed in £

	No of Projects	Forecast Expenditure	Declared Expenditure	Grant Committed	Grant Paid	% Grant Committed Actually Paid
Eligible	54	£42,653,985	£17,836,372	£15,499,295	£6,654,575	43%
Transition	45	£66,765,509	£13,668,798	£13,252,091	£5,370,539	41%
<b>Total</b>	<b>99</b>	<b>£109,419,494</b>	<b>£31,505,170</b>	<b>£28,751,386</b>	<b>£12,025,114</b>	<b>42%</b>

Financial Information expressed in MEUROS

	No of Projects	Forecast Expenditure	Declared Expenditure	Grant Committed	Grant Paid	% Grant Committed Actually Paid
Eligible	54	66.699	27.891	24.237	10.406	43%
Transition	45	104.403	21.374	20.723	8.398	41%
<b>Total</b>	<b>99</b>	<b>171.102</b>	<b>49.265</b>	<b>44.960</b>	<b>18.804</b>	<b>42%</b>

#### 3.1.2 Cumulative Level of ERDF Grant Committed and Paid as at 31 December 2002

The cumulative number and value of ERDF projects (including Technical Assistance) and the level of grant committed and paid as at 31 December 2002 are listed below:

Financial Information expressed in £

	No of Projects	Forecast Expenditure	Declared Expenditure	Grant Committed	Grant Paid	% Grant Committed Actually Paid
Eligible	158	£112,954,574	£18,919,709	£41,469,682	£7,088,037	17%
Transition	133	£108,613,489	£15,695,669	£28,804,608	£6,002,000	21%
<b>Total</b>	<b>291</b>	<b>£221,568,063</b>	<b>£34,615,378</b>	<b>£70,274,290</b>	<b>£13,090,037</b>	<b>19%</b>

## Financial Information expressed in MEUROS

	No of Projects	Forecast Expenditure	Declared Expenditure	Grant Committed	Grant Paid	% Grant Committed Actually Paid
Eligible	158	179.432	29.629	65.883	11.100	17%
Transition	133	171.510	24.623	45.662	9.411	21%
<b>Total</b>	<b>291</b>	<b>350.942</b>	<b>54.252</b>	<b>111.545</b>	<b>20.511</b>	<b>19%</b>

A complete list of these ERDF projects split between eligible and transition areas are also attached for information as **Annex 5(i) and Annex 5(ii)**.

### 3.1.3 Initial Observations on Performance as at 31 December 2002

A review of progress to date indicates a mixed performance in the different priorities and measures in the Programme. Although the overall level of ERDF grant committed to projects as at 31 December 2002 was **£70,274,290** (or **44%** of the SPD grant allocation), the level of ERDF grant paid to sponsors in the same timescale was only **£13,090,037** (or **8%** of the SPD grant allocation). These commitment and payment figures also varied considerably between the different operational priorities; with Priority 2: Strategic Locations and Sectors performing far better to date than Priority 1: Strategic Economic Development. Some of the reasons to explain this mixed performance are provided in the next section, as well as a number of observations aimed at improving the situation.

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 are also 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 during 2002. 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 Priorities and Measures

### 3.2.1 *Explanatory Note for Physical Monitoring Tables*

A summary table has been included in the reports for each Programme priority and measure in order to enable some assessment to be made about how well the Programme is performing based on grant commitments made and grant paid as at 31 December 2002. These tables seek to compare the agreed SPD targets in each priority and measure against forecast and actual activity.

**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 correctly interpreting the guidance. In addition, following a review of the Programme Complement in 2002 aimed at developing a consistent approach across the Scottish Structural Fund Programmes, some revisions have been made to the SPD indicators in certain operational measures.

However, it is clear that a degree of under-reporting still exists in the monitoring data provided on projects approved prior to these revisions, particularly with regard to the horizontal themes. This factor should be borne in mind when reading this report. To improve this situation, the Programme Executive propose to work with applicants during 2003 to review individual project targets in order to ensure the integrity of data provided in all programme forms and to ensure their consistency with revised SPD indicators.

It should also be noted when assessing performance against agreed priority-wide monitoring indicators that those relating to 'net' figures will not be determined until the Final Evaluation of the Programme.

### **3.2.2 Priority 1: Strategic Economic Development**

#### Purpose of the Priority

The long-term future of the East of Scotland will be predominantly determined by the ability of people and institutions within the region to create a continuing flow of profitable private sector enterprises which can then grow into national and international businesses generating employment, exports and wealth. This is especially true within the programming period as competition of mobile investment increases and existing industrial and commercial enterprises face potential acquisition and rationalisation. A healthy and sustainable base of small and medium-sized businesses is thus an essential requirement for future economic development in the East of Scotland.

To secure the development of a strong, internationally competitive economy in the region, these issues must be tackled strategically, not in a piecemeal fashion. Of all the challenges facing local entrepreneurs however, there are three in particular which are closely related and where support from the European Structural Funds would be appropriate. Not every business will need all three forms of assistance, but others may do - either at once or over a period of time as part of a step by step plan for the development of the business. Three Operational Measures have therefore been framed, each of which is targeted at a specific area of economic development opportunity:

- 1.1: SME Creation and Development
- 1.2: Access to Risk Capital
- 1.3: Technology and Knowledge Transfer

#### Summary of Financial Performance in Priority 1 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	18	14	£6,611,936	£4,366,446	£2,909,928	£2,035,992
Transition	16	11	£4,512,962	£2,641,438	£1,678,712	£1,066,974
<b>Total</b>	<b>34</b>	<b>25</b>	<b>£11,124,898</b>	<b>£7,007,884</b>	<b>£4,588,640</b>	<b>£3,102,966</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	18	14	10.340	6.828	4.550	3.184
Transition	16	11	7.057	4.131	2.625	1.668
<b>Total</b>	<b>34</b>	<b>25</b>	<b>17.397</b>	<b>10.959</b>	<b>7.175</b>	<b>4.852</b>



### Cumulative Summary of Financial Performance in Priority 1 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	65	49	£24,429,679	£4,476,581	£11,374,397	£2,087,624
Transition	62	45	£15,988,247	£2,676,634	£5,992,375	£1,084,572
<b>Total</b>	<b>127</b>	<b>94</b>	<b>£40,417,926</b>	<b>£7,153,215</b>	<b>£17,366,772</b>	<b>£3,172,196</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	65	49	38.912	7.005	18.124	3.267
Transition	62	45	25.459	4.187	9.543	1.696
<b>Total</b>	<b>127</b>	<b>94</b>	<b>64.371</b>	<b>11.192</b>	<b>27.667</b>	<b>4.963</b>

### Analysis of Priority 1 Indicators

#### **Intermediate Results and Impacts**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total gross new sales in SMEs (£million)	800	248.81	29%	31%	40.53	5%	5%
Total gross direct jobs in SMEs	10,394	10,902	29%	105%	2,113	5%	20%
Total gross safeguarded jobs in SMEs	4,454	10,584	29%	238%	2,996	5%	67%
Total Net Jobs Created /Safeguarded	11,027	*	29%	*	*	5%	*
Net New Jobs Created	7,719	*	29%	*	*	5%	*
Net Safeguarded Jobs	3,308	*	29%	*	*	5%	*
Total Net Value-Added Created/Safeguarded (£million)	305.70	*	29%	*	*	5%	*
Net New Value-Added (£million)	214	*	29%	*	*	5%	*
Net Safeguarded Value-Added (£million)	91.70	*	29%	*	*	5%	*

\* Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Final Evaluation stage

### **3.2.3 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 Financial Performance in Measure 1.1 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	13	9	£2,704,243	£2,538,723	£1,217,117	£1,243,224
Transition	12	8	£2,984,386	£2,408,959	£1,000,014	£968,932
<b>Total</b>	<b>25</b>	<b>17</b>	<b>£5,688,629</b>	<b>£4,947,682</b>	<b>£2,217,131</b>	<b>£2,212,156</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	13	9	4.229	3.970	1.903	1.944
Transition	12	8	4.667	3.767	1.564	1.515
<b>Total</b>	<b>25</b>	<b>17</b>	<b>8.896</b>	<b>7.737</b>	<b>3.467</b>	<b>3.459</b>

### Cumulative Summary of Financial Performance in Measure 1.1 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	44	34	£14,539,632	£2,648,858	£6,960,847	£1,294,856
Transition	47	36	£12,802,687	£2,444,155	£4,631,741	£986,530
<b>Total</b>	<b>91</b>	<b>70</b>	<b>£27,342,319</b>	<b>£5,093,013</b>	<b>£11,592,588</b>	<b>£2,281,386</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	44	34	23.208	4.147	11.114	2.027
Transition	47	36	20.412	3.823	7.388	1.543
<b>Total</b>	<b>91</b>	<b>70</b>	<b>43.620</b>	<b>7.970</b>	<b>18.502</b>	<b>3.570</b>

### Analysis of Measure 1.1 Indicators

#### **Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total no. of instances of assistance to existing businesses	12,455	30,068	31%	241%	7,159	6%	57%
<i>No. of instances of assistance to existing businesses in areas of most need</i>	<i>3,737</i>	<i>2,452</i>	<i>31%</i>	<i>66%</i>	<i>841</i>	<i>6%</i>	<i>23%</i>
<i>No. of instances of assistance to existing businesses owned or managed by women</i>	<i>2,491</i>	<i>1,678</i>	<i>31%</i>	<i>67%</i>	<i>620</i>	<i>6%</i>	<i>25%</i>
Total no. of existing businesses assisted	6,228	12,379	31%	199%	2,676	6%	43%
<i>No. of existing assisted businesses from areas most in need</i>	<i>1,868</i>	<i>1,478</i>	<i>31%</i>	<i>79%</i>	<i>456</i>	<i>6%</i>	<i>24%</i>
<i>No. of existing assisted businesses owned or managed by women</i>	<i>1,246</i>	<i>789</i>	<i>31%</i>	<i>63%</i>	<i>207</i>	<i>6%</i>	<i>17%</i>
Total no. of instances of assistance to new businesses	3,449	6,157	31%	179%	1,042	6%	30%
<i>No. of instances of assistance to new businesses in areas of most need</i>	<i>1,035</i>	<i>822</i>	<i>31%</i>	<i>79%</i>	<i>121</i>	<i>6%</i>	<i>12%</i>
<i>No. of instances of assistance to new businesses owned or managed by women</i>	<i>1,380</i>	<i>916</i>	<i>31%</i>	<i>66%</i>	<i>142</i>	<i>6%</i>	<i>10%</i>

Total no. of new businesses assisted/created	3,449	2,823	31%	82%	632	6%	18%
No. of new assisted businesses from areas most in need	1,035	691	31%	67%	93	6%	9%
No. of new assisted businesses owned or managed by women	1,380	759	31%	55%	97	6%	7%

### Intermediate Results

Approved Indicator	SPD Target	Forecast Target	% Allocation Committed	% SPD Target met by Forecast	Actual Achieved	% Allocation Paid Out	% SPD Target met by Actual
Total no. of gross new jobs created	6,480	9,185	31%	142%	2,013	6%	31%
No. of gross new jobs created in areas defined as most in need	1,944	1,520	31%	78%	148	6%	8%
No. of gross new jobs created for women	2,592	2,763	31%	107%	380	6%	15%
Total no. of jobless people securing employment	2,160	289	31%	13%	21	6%	1%
No. of jobless people from areas of most need securing employment	648	69	31%	11%	11	6%	2%
Total no. of people under 25 securing employment	720	248	31%	34%	35	6%	5%
No. of people under 25 from areas of most need securing employment	216	54	31%	25%	10	6%	5%
Total gross jobs created through self employment	1,725	1,281	31%	74%	123	6%	7%
Gross jobs created for women through self employment	690	499	31%	72%	75	6%	11%
Total gross no. of jobs safeguarded	2,777	8,217	31%	296%	2,903	6%	105%
No. of jobs safeguarded in areas of most need	833	1,452	31%	174%	203	6%	24%
Gross no. of jobs for women safeguarded	1,111	1,703	31%	153%	467	6%	42%
Increase in sales in existing businesses (£million)	317.52	145.36	31%	46%	36.99	6%	12%
Increase in sales in new businesses (£million)	136.08	44.08	31%	32%	1.93	6%	1%
Private sector leverage (£million)	12.30	29.11	31%	237%	11.04	6%	90%
No. of organisations taking up e-commerce trading	483	1,966	31%	407%	138	6%	29%

No. of organisations which introduce active people friendly policies	967	79	31%	8%	4	6%	0%
No. of organisations achieving recognised quality awards	967	222	31%	23%	17	6%	2%
Total no. of organisations undertaking environmental management	967	450	31%	47%	113	6%	12%

### Progress to date in implementing Measure 1.1 and key operational issues

Following a reasonable start made in 2001 to the implementation of this measure, the level of new ERDF commitments in 2002 was relatively poor. As a result, there was only a **31%** grant commitment level as at 31 December 2002. Although some of the forecast physical indicators appear high, it should be noted that many of the business development applications approved to date 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 and this needs to be remembered when assessing monitoring data.

In seeking to explain the relatively poor level of project development in this measure, some partner organisations have highlighted the difficulty of securing the necessary level of public sector co-finance to fund business development projects in the face of competing organisational interests. One of the mechanisms used in 2002 to assist the process of project development in this important revenue measure was to allow the potential use of overheads in project applications. This followed guidance from the Scottish Executive that overheads are allowable in ERDF projects within certain strict criteria and where they are clearly evidenced at the time of application. Although the potential use of overheads will not resolve the current level of under-commitment on its own, it might nevertheless play a useful part in stimulating interest from some partner organisations in Measure 1.1 during 2003.

On a technical point, the average grant intervention rate for those existing commitments in Measure 1.1 eligible exceed the agreed average grant intervention rate for the measure as detailed in the SPD. Although the situation is manageable in the short-term, it required projects submitted in 2002 to accept on average a slightly lower level of grant in order to ensure that the average grant rate at final closure does not exceed that identified for Measure 1.1 in the SPD financial tables. This situation will continue to be closely reviewed in 2003.

**3.2.4 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 Financial Performance in Measure 1.2 in 2002

Financial Information expressed in £

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
Eligible	0	0	£0	£0	£0	£0
Transition	0	0	£0	£0	£0	£0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

Financial Information expressed in MEUROS

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
Eligible	0	0	0	0	0	0
Transition	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Cumulative Summary of Financial Performance in Measure 1.2 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	3	0	£0	£0	£0	£0
Transition	1	0	£0	£0	£0	£0
<b>Total</b>	<b>4</b>	<b>0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	3	0	0	0	0	0
Transition	1	0	0	0	0	0
<b>Total</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Analysis of Measure 1.2 Indicators

#### **Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total no. of instances of assistance to existing businesses	772	0	0%	0%	0	0%	0%
<i>No. of instances of assistance to existing businesses in areas of most need</i>	232	0	0%	0%	0	0%	0%
<i>No. of instances of assistance to existing businesses owned or managed by women</i>	154	0	0%	0%	0	0%	0%
Total no. of existing businesses assisted	618	0	0%	0%	0	0%	0%
<i>No. of existing assisted businesses from areas most in need</i>	185	0	0%	0%	0	0%	0%
<i>No. of existing assisted businesses owned or managed by women</i>	124	0	0%	0%	0	0%	0%
Total no. of instances of assistance to new businesses	231	0	0%	0%	0	0%	0%
<i>No. of instances of assistance to new businesses in areas of most need</i>	69	0	0%	0%	0	0%	0%
<i>No. of instances of assistance to new businesses owned or managed by women</i>	92	0	0%	0%	0	0%	0%

Total no. of new businesses assisted/created	231	0	0%	0%	0	0%	0%
No. of new assisted businesses from areas most in need	69	0	0%	0%	0	0%	0%
No. of new assisted businesses owned or managed by women	92	0	0%	0%	0	0%	0%

### Intermediate Results

Approved Indicator	SPD Target	Forecast Target	% Allocation Committed	% SPD Target met by Forecast	Actual Achieved	% Allocation Paid Out	% SPD Target met by Actual
Total no. of gross new jobs created	1,468	0	0%	0%	0	0%	0%
No. of gross new jobs created in areas defined as most in need	440	0	0%	0%	0	0%	0%
No. of gross new jobs created for women	587	0	0%	0%	0	0%	0%
Total no. of jobless people securing employment	489	0	0%	0%	0	0%	0%
No. of jobless people from areas of most need securing employment	147	0	0%	0%	0	0%	0%
Total no. of people under 25 securing employment	163	0	0%	0%	0	0%	0%
No. of people under 25 from areas of most need securing employment	49	0	0%	0%	0	0%	0%
Total gross jobs created through self employment	23	0	0%	0%	0	0%	0%
Gross jobs created for women through self employment	9	0	0%	0%	0	0%	0%
Total gross no. of jobs safeguarded	629	0	0%	0%	0	0%	0%
No. of jobs safeguarded in areas of most need	189	0	0%	0%	0	0%	0%
Gross no. of jobs for women safeguarded	252	0	0%	0%	0	0%	0%
Increase in sales in existing businesses (£million)	71.89	0	0%	0%	0	0%	0%
Increase in sales in new businesses (£million)	30.81	0	0%	0%	0	0%	0%
No. of organisations which introduce active people friendly policies	85	0	0%	0%	0	0%	0%



### Progress to Date in implementing Measure 1.2 and Issues

Although no new risk capital funds were supported under this measure in 2002, considerable preparatory and developmental work was undertaken both to assess the extent of market failure and market demand for risk capital funds for new and early stage SMEs, and also to develop appropriate investment vehicles to respond to those identified needs. In particular, and following the deliberations of a risk capital working group established in 2001 there was a stated preference for a pan-Scotland or a lowland Scotland SME equity fund. This view was based on a combination of evaluation evidence (Eastern Scotland Investments and Strathclyde Investment Fund both supported under the 1997 - 1999 Objective 2 Programmes in the East and West of Scotland respectively) and a desire to achieve economies of scale in the overall fund capital and in management costs. Indeed feedback from the clearing banks and other private sector investors suggests a greater appeal for a fund which could reach a wider market and generate substantial deal-flow.

The assessment of market failure and demand for new and early stage SME development capital was undertaken in the period 2000 - 2001, largely based on the experience of Eastern Scotland Investments and Strathclyde Investment Fund. This also took into consideration the level of syndication with other market players such as the venture capital funds 3i, Scottish Equity Partners and private investors (business angels). However, since that time and during 2002 a number of established venture capital funds significantly scaled down their activities in Scotland or in some cases closed down their Scottish operations. As a consequence not only did the market gap widen and the availability of early stage finance reduce, but just as critically the availability of second stage or follow-on finance in the £1m+ range largely dried up. This left the angel investors and their syndicates as key if not sole players in the market place. It is estimated that they invested some £40m in 2002, much of this 'smart money' being used more as cash flow support than development finance in the absence of much needed larger scale follow-on finance supplied traditionally by the venture capital funds.

What is also apparent is that the clearing banks, institutional and corporate investors appear to have largely withdrawn from investing in venture capital funds and the equity market in general as a consequence of the sharp decline in stock market values since September 11<sup>th</sup> 2001. This also compounded the difficulties in securing sufficient levels of venture capital for second stage growth, and again reinforces the scale of market failure and the need for public sector intervention as new companies struggle to generate adequate levels of capitalisation and development finance to survive.

It is also important to mention in this regard that a considerable body of evaluation evidence exists which points not only to market failure with regard to the availability and access to risk capital, but to market inefficiencies where the quality of business plans and the level of understanding of investee companies often falls very far short of the expectations and requirements of investment funds. This factor was borne out in the study on loan/equity finance undertaken by the Partnership last year and outlined in the Annual Report for 2001. This lack of investor readiness has long been identified by fund managers as a critical deficiency, and one which can substantially delay approval and add significantly to the management and transaction costs. Accordingly, particular attention was paid in 2002 to developing appropriate investor ready schemes which can be a precursor if not a pre-requisite for companies seeking risk capital. Furthermore, it is acknowledged that investee companies also need ongoing support, monitoring and mentoring in order to ensure that the invested funds are properly managed and that the investee company uses them to proper and good effect.

Considerable progress in the latter part of 2002 was achieved by Scottish Enterprise in developing a lowland Scotland SME equity fund. Utilising £20m of converted Regional Selective Assistance monies from the Scottish Executive, a proposal was developed to create a 'fund of funds' which would attract an equivalent level of investment from the private sector. During that time joint discussions were held between the Scottish Executive, Scottish Enterprise and the three Scottish Objective 2 Programme Management Executives in order to assess the eligibility of the proposed Scottish Enterprise fund for ERDF support. The new fund titled the Scottish Co-Investment Fund (SCF) was officially launched in December 2002 and an ERDF application is expected during 2003.

### **3.2.5 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 Financial Performance in Measure 1.3 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	5	5	£3,907,693	£1,827,723	£1,692,811	£792,768
Transition	4	3	£1,528,576	£232,479	£678,698	£98,042
<b>Total</b>	<b>9</b>	<b>8</b>	<b>£5,436,269</b>	<b>£2,060,202</b>	<b>£2,371,509</b>	<b>£890,810</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	5	5	6.111	2.858	2.647	1.240
Transition	4	3	2.390	0.364	1.061	0.153
<b>Total</b>	<b>9</b>	<b>8</b>	<b>8.501</b>	<b>3.222</b>	<b>3.708</b>	<b>1.393</b>

### Cumulative Summary of Financial Performance in Measure 1.3 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	21	15	£9,890,047	£1,827,723	£4,413,550	£792,768
Transition	15	9	£3,185,560	£232,479	£1,360,634	£98,042
<b>Total</b>	<b>36</b>	<b>24</b>	<b>£13,075,607</b>	<b>£2,060,202</b>	<b>£5,774,184</b>	<b>£890,810</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	21	15	15.704	2.858	7.010	1.240
Transition	15	9	5.047	0.364	2.155	0.153
<b>Total</b>	<b>36</b>	<b>24</b>	<b>20.751</b>	<b>3.222</b>	<b>9.165</b>	<b>1.393</b>

### Analysis of Measure 1.3 Indicators

#### **Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total no. of instances of assistance to existing businesses	2,420	7,259	39%	300%	470	6%	19%
<i>No. of instances of assistance to existing businesses in areas of most need</i>	726	1,139	39%	157%	51	6%	7%
<i>No. of instances of assistance to existing businesses owned or managed by women</i>	484	902	39%	186%	39	6%	8%
Total no. of existing businesses assisted	1,210	1,820	39%	150%	209	6%	17%
<i>No. of existing assisted businesses from areas most in need</i>	363	472	39%	130%	15	6%	4%
<i>No. of existing assisted businesses owned or managed by women</i>	242	387	39%	160%	14	6%	6%
Total no. of instances of assistance to new businesses	587	2,817	39%	480%	269	6%	46%
<i>No. of instances of assistance to new businesses in areas of most need</i>	176	246	39%	140%	13	6%	7%

<i>No. of instances of assistance to new businesses owned or managed by women</i>	235	451	39%	192%	27	6%	11%
Total no. of new businesses assisted/created	587	470	39%	80%	88	6%	15%
<i>No. of new assisted businesses from areas most in need</i>	176	62	39%	35%	6	6%	3%
<i>No. of new assisted businesses owned or managed by women</i>	235	121	39%	51%	16	6%	7%
No. of commercialisation projects in HE, FE and research institution	10	518	39%	5,180%	62	6%	620%

### Intermediate Results

Approved Indicator	SPD Target	Forecast Target	% Allocation Committed	% SPD Target met by Forecast	Actual Achieved	% Allocation Paid Out	% SPD Target met by Actual
Total no. of gross new jobs created	2,446	1,717	39%	70%	100	6%	4%
<i>No. of gross new jobs created in areas defined as most in need</i>	734	166	39%	23%	19	6%	3%
<i>No. of gross new jobs created for women</i>	978	673	39%	69%	32	6%	3%
Total no. of jobless people securing employment	815	14	39%	2%	2	6%	0%
<i>No. of jobless people from areas of most need securing employment</i>	245	3	39%	1%	0	6%	0%
Total no. of people under 25 securing employment	272	66	39%	24%	15	6%	6%
<i>No. of people under 25 from areas of most need securing employment</i>	82	21	39%	26%	4	6%	5%
Total gross jobs created through self employment	59	19	39%	32%	1	6%	2%
<i>Gross jobs created for women through self employment</i>	24	9	39%	37%	0	6%	0%
Total gross no. of jobs safeguarded	1,048	2,367	39%	226%	93	6%	9%
<i>No. of jobs safeguarded in areas of most need</i>	314	323	39%	103%	14	6%	5%
<i>Gross no. of jobs for women safeguarded</i>	419	592	39%	141%	21	6%	5%

Increase in sales in existing businesses (£million)	171.50	31.90	39%	19%	1.00	6%	1%
Increase in sales in new businesses (£million)	73.50	27.47	39%	37%	0.61	6%	1%
Private sector leverage (£million)	4.90	9.21	39%	188%	0.45	6%	9%
Increased investment in R&D by assisted businesses (£million)	3.20	6.79	39%	212%	1.23	6%	38%
Total no. of patents issued/IPR registrations by businesses	449	67	39%	15%	10	6%	2%
No. of organisations taking up e-commerce trading	180	18	39%	10%	0	6%	0%
No. of organisations which introduce active people friendly policies	180	361	39%	201%	2	6%	1%
No. of organisations achieving recognised quality awards	449	104	39%	23%	3	6%	1%
Total no. of organisations undertaking environmental management	180	508	39%	282%	2	6%	1%

### Progress to Date in implementing Measure 1.3 and Issues

Following a reasonable start made in 2001 to the implementation of this revenue measure, the level of new ERDF commitments in 2002 was relatively poor. As a result, there was only a **39%** grant commitment level as at 31 December 2002. However, as with Measure 1.1 it should be noted that some of the technology transfer applications approved to date 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 and this needs to be remembered when assessing monitoring data.

In seeking to explain this relatively poor level of project development, some partner organisations in the technology transfer sector, such as universities and research institutes, have highlighted the difficulty of securing the necessary level of public sector co-finance to fund projects in the face of competing organisational interests. One of the mechanisms used in 2002 to assist the process of project development in this revenue measure was to allow the potential use of overheads in project applications. This followed guidance from the Scottish Executive that overheads are allowable in ERDF projects within certain strict criteria and where they are clearly evidenced at the time of application.

The university sector have been pushing for a number of years for some overheads to be allowable in ERDF applications and it should be noted that most research programmes that universities apply to for grant-aid offer differing levels of overhead support. Although the potential use of overheads will not resolve the current level of under-commitment on its own, it might nevertheless play a useful part in stimulating interest from some partner organisations in Measure 1.3 during 2003.

On a technical point, the average grant intervention rate for those existing commitments in Measure 1.3 transition exceed the agreed average grant intervention rate for the measure as detailed in the SPD. Although the situation is manageable in the short-term, it required projects submitted in 2002 to accept on average a slightly lower level of grant in order to ensure that the average grant rate at final closure does not exceed that identified for Measure 1.3 in the SPD financial tables. This situation will continue to be closely reviewed in 2003.

### **3.2.6 Priority 2: Strategic Locations and Sectors**

#### Purpose of the Priority

Whereas the other priorities within the Programme are concerned with the development needs of either individual SMEs or local communities, Priority 2 reflects a complementary need to achieve a wider strategic focus and coherence in the actions supported through the Programme. This will help maximise the economic impacts of support by focussing on larger areas and key economic sectors whose development will help achieve the overall aim and objectives of the Conversion Strategy.

The policy thrust behind the development of the Strategic Locations and Sectors Priority, also derives in part from a recognition of the relative reduction in the overall level of Structural Fund resources and the consequential imperative to prioritise and target these diminishing resources more effectively, and to ensure more durable benefits. This framework must also reflect the need to concentrate resources where they can have the greatest benefit, not just in regard to economic impact, but also in terms of contingent social inclusion gains.

The locations and sectors covered by this Priority are mutually reinforcing: within the designated locations, support will only be given to activities which fall within the key strategic sectors. Thus, applicants will be required to describe the strategic context within which the proposal or set of integrated actions will be implemented. This strategic context should, where relevant, reflect the strategic development themes of the overarching SPD strategy, and at minimum, they must set out their sustainable development credentials.

#### Strategic Locations

The nine locations within the East of Scotland Programme Area that have been identified as the focus for Structural Fund support under the Strategic Economic Development Priority for 2000 - 2006 are;

- The Loch Lomond and the Trossachs National Park
- The Cairngorms National Park
- Rosyth and Bridgehead Area
- Kirkcaldy/South Glenrothes
- Coastal Moray Firth
- City of Dundee/South Coastal Angus
- M9/M876 Development Corridor
- M8 Development Corridor
- Lothians - South East Wedge - A701 Corridor



The locations include key development sites as identified in current structure and local plans. These initial strategic locations will be re-assessed during the Programme's mid-term review.

### Strategic Sectors

The six sectors that have been identified as the focus for Structural Fund support under the Strategic Economic Development Priority for 2000 - 2006 are;

- Tourism and Cultural Industries
- Biotechnology and Life Sciences
- Food and Drink
- Forest Products
- Creative Industries
- Electronics/Opto-Electronics

### Derogations

Notwithstanding the broad thrust of the spatial and sector targeting approach inherent in the strategy for Priority 2, three exceptions are provided for in the Programme. These relate to support for:

- Marketing/Branding Initiatives and IT Networks
- Training Infrastructure
- Manufacturing (Eligible Areas only)

Two Operational Measures have therefore been framed, each of which is targeted at a specific area of economic development opportunity:

- 2.1: Strategic Locations and Sectors (Revenue)  
 2.2: Strategic Locations and Sectors (Capital)

### Summary of Financial Performance in Priority 2 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	32	21	£30,611,821	£8,938,538	£10,043,883	£2,429,841
Transition	27	13	£58,141,178	£8,327,008	£9,747,593	£3,189,464
<b>Total</b>	<b>59</b>	<b>34</b>	<b>£88,752,999</b>	<b>£17,265,546</b>	<b>£19,791,476</b>	<b>£5,619,305</b>

## Financial Information expressed in MEUROS

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
Eligible	32	21	47.868	13.978	15.706	3.800
Transition	27	13	90.916	13.021	15.243	4.988
<b>Total</b>	<b>59</b>	<b>34</b>	<b>138.784</b>	<b>26.999</b>	<b>30.949</b>	<b>8.788</b>

Cumulative Summary of Financial Performance in Priority 2 as at 31 December 2002

## Financial Information expressed in £

	Total No. of Projects appraised	Total No. of Projects approved	Total Forecast Expenditure	Total Declared Expenditure	Total Grant Committed	Total Grant Paid
Eligible	92	56	£67,505,874	£9,357,623	£19,877,388	£2,534,612
Transition	58	29	£80,833,310	£10,095,784	£17,805,437	£3,691,877
<b>Total</b>	<b>150</b>	<b>85</b>	<b>£148,339,184</b>	<b>£19,453,407</b>	<b>£37,682,825</b>	<b>£6,226,489</b>

## Financial Information expressed in MEUROS

	Total No. of Projects appraised	Total No. of Projects approved	Total Forecast Expenditure	Total Declared Expenditure	Total Grant Committed	Total Grant Paid
Eligible	92	56	107.031	14.650	31.475	3.968
Transition	58	29	127.305	15.857	28.164	5.794
<b>Total</b>	<b>150</b>	<b>85</b>	<b>234.336</b>	<b>30.507</b>	<b>59.639</b>	<b>9.762</b>

Analysis of Priority 2 Indicators**Intermediate Results and Impacts**

Approved Indicator	SPD Target	Forecast Target	% Allocation Committed	% SPD Target met by Forecast	Actual Achieved	% Allocation Paid Out	% SPD Target met by Actual
Total gross new sales in SMEs (£million)	222	145.55	63%	66%	14.67	10%	7%
Total gross direct jobs in SMEs	4,697	13,945	63%	297%	894	10%	19%
Total gross safeguarded jobs in SMEs	9,675	6,521	63%	67%	859	10%	9%
Total Net Jobs Created /Safeguarded	6,008	*	63%	*	*	10%	*
Net New Jobs Created	2,436	*	63%	*	*	10%	*
Net Safeguarded Jobs	3,572	*	63%	*	*	10%	*
Total Net Value-Added Created/Safeguarded (£million)	140.90	*	63%	*	*	10%	*
Net New Value-Added (£million)	55.70	*	63%	*	*	10%	*
Net Safeguarded Value-Added (£million)	85.20	*	63%	*	*	10%	*

\* Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Final Evaluation stage

### **3.2.7 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 Financial Performance in Measure 2.1 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	8	7	£7,067,795	£1,713,664	£3,452,628	£839,382
Transition	10	6	£6,336,967	£4,792,430	£2,388,370	£2,109,665
<b>Total</b>	<b>18</b>	<b>13</b>	<b>£13,404,762</b>	<b>£6,506,094</b>	<b>£5,840,998</b>	<b>£2,949,047</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	8	7	11.052	2.680	5.399	1.313
Transition	10	6	9.909	7.494	3.735	3.299
<b>Total</b>	<b>18</b>	<b>13</b>	<b>20.961</b>	<b>10.174</b>	<b>9.134</b>	<b>4.612</b>

#### Cumulative Summary of Financial Performance in Measure 2.1 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	22	17	£10,873,668	£1,713,664	£5,293,405	£839,382
Transition	23	14	£13,666,604	£4,792,430	£5,512,862	£2,109,665
<b>Total</b>	<b>45</b>	<b>31</b>	<b>£24,540,272</b>	<b>£6,506,094</b>	<b>£10,806,267</b>	<b>£2,949,047</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	22	17	17.155	2.680	8.351	1.313
Transition	23	14	21.663	7.494	8.745	3.299
<b>Total</b>	<b>45</b>	<b>31</b>	<b>38.818</b>	<b>10.174</b>	<b>17.096</b>	<b>4.612</b>

Analysis of Measure 2.1 Indicators**Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total no. of instances of assistance to existing businesses	2,005	41,131	76%	2,051%	21,793	21%	1,087%
<i>No. of instances of assistance to existing businesses in areas of most need</i>	602	8,300	76%	1,379%	4,141	21%	688%
<i>No. of instances of assistance to existing businesses owned or managed by women</i>	401	8,000	76%	1,995%	3,700	21%	923%
Total no. of existing businesses assisted	1,003	23,964	76%	2,389%	10,860	21%	1,083%
<i>No. of existing assisted businesses from areas most in need</i>	301	4,793	76%	1,593%	2,063	21%	686%
<i>No. of existing assisted businesses owned or managed by women</i>	201	4,605	76%	2,291%	1,952	21%	971%
Total no. of instances of assistance to new businesses	556	1,087	76%	196%	350	21%	63%
<i>No. of instances of assistance to new businesses in areas of most need</i>	167	200	76%	120%	70	21%	42%
<i>No. of instances of assistance to new businesses owned or managed by women</i>	222	275	76%	124%	95	21%	43%
Total no. of new businesses assisted/created	556	523	76%	94%	212	21%	38%
<i>No. of new assisted businesses from areas most in need</i>	167	111	76%	66%	43	21%	26%
<i>No. of new assisted businesses owned or managed by women</i>	222	198	76%	89%	74	21%	33%
Total no. of environmental partnerships supported	6	3	76%	50%	0	21%	0%
No. of marketing campaigns/initiatives supported	27	62	76%	230%	18	21%	67%

**Intermediate Results**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total no. of gross new jobs created	2,146	3,897	76%	182%	848	21%	40%
<i>No. of gross new jobs created in areas defined as most in need</i>	644	1,676	76%	260%	117	21%	18%
<i>No. of gross new jobs created for women</i>	858	2,194	76%	256%	27	21%	3%
Total no. of jobless people securing employment	715	1,521	76%	213%	0	21%	0%
<i>No. of jobless people from areas of most need securing employment</i>	215	304	76%	141%	0	21%	0%
Total no. of people under 25 securing employment	238	1,660	76%	697%	0	21%	0%
<i>No. of people under 25 from areas of most need securing employment</i>	71	330	76%	465%	0	21%	0%
Total gross jobs created through self employment	55	231	76%	420%	17	21%	31%
<i>Gross jobs created for women through self employment</i>	22	69	76%	314%	5	21%	23%
Total gross no. of jobs safeguarded	3,020	4,352	76%	144%	763	21%	25%
<i>No. of jobs safeguarded in areas of most need</i>	906	870	76%	96%	153	21%	17%
<i>Gross no. of jobs for women safeguarded</i>	1,208	1,306	76%	108%	229	21%	19%
Increase in sales in existing businesses (£million)	43.06	142.05	76%	330%	14.29	21%	33%
Increase in sales in new businesses (£million)	29.24	2.53	76%	9%	0.38	21%	1%
Private sector leverage (£million)	2.00	7.85	76%	392%	0	21%	0%
Increase in visitor numbers	3,000,000	4,497,612	76%	150%	921,078	21%	31%
No. of organisations which introduce active people friendly policies	156	109	76%	70%	39	21%	25%
Total no. of organisations undertaking environmental management	156	3	76%	2%	0	21%	0%

### Progress to Date in implementing Measure 2.1 and Issues

The good start made in 2001 to the implementation of this measure was continued in 2002. As a result, there was a **76%** grant commitment level as at 31 December 2002. This figure takes account of the virement of additional grant resources into Measure 2.1 from Measure 2.2 from the transition budget which is outlined in section 3.3 of this chapter. A key reason for this high level of commitment is the continued importance placed in the Programme to supporting additional tourism marketing schemes. This reflects importance of instilling confidence and stimulating activity in this vital industry to the Programme Area following global uncertainty over the last eighteen months.

Although the forecast and actual levels of support to existing businesses in this measure already exceed the SPD targets many times over, this is due to the nature of the projects supported in Measure 2.1. These have predominantly been for targeted marketing schemes run by the Area Tourist Boards and the SME figures are based on tourist board membership levels in the Programme Area.

On a technical point, the average grant intervention rate for those existing commitments in Measure 2.1 (both eligible and transition) exceed the agreed average grant intervention rate for the measure as detailed in the SPD. Although the situation is manageable in the short-term, it required projects submitted in 2002 to accept on average a slightly lower level of grant in order to ensure that the average grant rate at final closure does not exceed that identified for Measure 2.1 in the SPD financial tables. This situation will continue to be closely reviewed in 2003.

<b>3.2.8</b>	<b>Priority</b>	<b>2</b>	<b>Strategic Locations and Sectors</b>
	<b>Measure</b>	<b>2</b>	<b>Strategic Locations &amp; Sectors (Capital)</b>

#### 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 nine strategic locations and corridors where this Measure will apply.

In these strategic locations funding opportunities will be targeted on the six 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 Financial Performance in Measure 2.2 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	24	14	£23,544,026	£7,224,874	£6,591,255	£1,590,459
Transition	17	7	£51,804,211	£3,534,578	£7,359,223	£1,079,799
<b>Total</b>	<b>41</b>	<b>21</b>	<b>£75,348,237</b>	<b>£10,759,452</b>	<b>£13,950,478</b>	<b>£2,670,258</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	24	14	36.816	11.298	10.307	2.487
Transition	17	7	81.007	5.527	11.508	1.689
<b>Total</b>	<b>41</b>	<b>21</b>	<b>117.823</b>	<b>16.825</b>	<b>21.815</b>	<b>4.176</b>

### Cumulative Summary of Financial Performance in Measure 2.2 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	70	39	£56,632,206	£7,643,959	£14,583,983	£1,695,230
Transition	35	15	£67,166,706	£5,303,354	£12,292,575	£1,582,212
<b>Total</b>	<b>105</b>	<b>54</b>	<b>£123,798,912</b>	<b>£12,947,313</b>	<b>£26,876,558</b>	<b>£3,277,442</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	70	39	89.876	11.970	23.124	2.655
Transition	35	15	105.642	8.363	19.419	2.495
<b>Total</b>	<b>105</b>	<b>54</b>	<b>195.518</b>	<b>20.333</b>	<b>42.543</b>	<b>5.150</b>



Analysis of Measure 2.2 Indicators**Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Hectares of serviced land created or enhanced (brownfield)	58	88.76	58%	153%	0.07	7%	0%
Hectares of serviced land created or enhanced (greenfield)	25	165	58%	660%	15	7%	60%
Total sqm of business space created	117,920	19,754	58%	17%	5,207	7%	4%
Total sqm of business space enhanced	78,613	33,203	58%	42%	0	7%	0%
<i>Sqm of business space created in areas of most need</i>	29,480	5,926	58%	20%	0	7%	0%
<i>Sqm of business space enhanced in areas of most need</i>	29,480	9,961	58%	34%	0	7%	0%
Total no. of training/learning facilities created	2	6	58%	300%	1	7%	50%
Total no. of training/learning facilities enhanced	2	4	58%	200%	0	7%	0%
<i>No. of training/learning facilities created in areas of most need</i>	1	2	58%	200%	1	7%	100%
<i>No. of training/learning facilities enhanced in areas of most need</i>	1	2	58%	200%	0	7%	0%
Total sqm of training/learning facilities created	3,448	27,000	58%	783%	4,800	7%	139
Total sqm of training/learning facilities enhanced	2,299	1,270	58%	55%	288	7%	13%
<i>Sqm of training/learning facilities created in areas of most need</i>	862	7,500	58%	870%	1,440	7%	167%
<i>Sqm of training/learning facilities enhanced in areas of most need</i>	862	380	58%	44%	0	7%	0%
Total no. of childcare facilities created	34	2	58%	6%	0	7%	0%
<i>No. of childcare facilities created in areas of most need</i>	10	1	58%	10%	0	7%	0%
Total sqm of childcare facilities created	1,710	115	58%	7%	0	7%	0%
Total sqm of childcare facilities enhanced	1,710	0	58%	0%	0	7%	0%
No. of sites provided with direct access	17	56	58%	329%	1	7%	6%

**Intermediate Results**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
Total no. of gross new jobs created	2,551	10,048	58%	394%	46	7%	2%
<i>No. of gross new jobs created in areas defined as most in need</i>	765	3,267	58%	427%	5	7%	1%
<i>No. of gross new jobs created for women</i>	1,020	3,053	58%	299%	3	7%	0%
Total no. of jobless people securing employment	850	254	58%	30%	0	7%	0%
<i>No. of jobless people from areas of most need securing employment</i>	255	76	58%	30%	0	7%	0%
Total no. of people under 25 securing employment	283	300	58%	106%	0	7%	0%
<i>No. of people under 25 from areas of most need securing employment</i>	85	100	58%	118%	0	7%	0%
Total gross no. of jobs safeguarded	6,655	2,169	58%	33%	96	7%	1%
<i>No. of jobs safeguarded in areas of most need</i>	1,997	651	58%	33%	28	7%	1%
Increase in sales in existing businesses (£million)	89.40	0.97	58%	1%	0	7%	0%
Increase in sales in new businesses (£million)	59.60	0	58%	0%	0	7%	0%
Total sqm of business space occupied after 18 months	98,267	89,324	58%	91%	900	7%	1%
Total sqm of business space occupied after 36 months	16,705	67,633	58%	405%	900	7%	5%
Private sector leverage (£million)	11.80	6.02	58%	51%	0	7%	0%
Increase in visitor numbers	647,000	2,292,296	58%	354%	0	7%	0%
Hectares of natural habitat management	50	4,000	58%	8,000%	4,000	7%	8,000%
Total no. of childcare places created	342	180	58%	53%	0	7%	0%
<i>No. of childcare places created in areas of most need</i>	103	60	58%	58%	0	7%	0%
Area of technology training premises developed (sqm)	5,747	10,800	58%	188%	0	7%	0%

### 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 continued to be strong in 2002. As a result, there was a **58%** grant commitment level as at 31 December 2002. In addition, the average grant intervention rate for Measure 2.2 projects is well below the agreed SPD average and signifies that more activity is being funded than was originally envisaged.

Despite the healthy commitment and forecast physical data, it is clear that at an operational level a number of difficulties were experienced during 2002 in implementing Measure 2.2 projects, particularly those which are being developed in partnership with the private sector. These difficulties have been partly caused by banks adopting a more cautious investment policy with regard to funding capital projects geared at high-growth sectors. This has been done in response to recent global uncertainties and the general economic slowdown. A consequence of this more cautious approach has been that many private sector partners are struggling to get the necessary co-finance required to undertake projects or are having to re-negotiate previously agreed terms. Where this has become an issue, the Programme Management Committee have adopted a flexible approach to requests from public sector sponsors to delay the implementation of previously agreed projects in order that they remain as live approved projects.

With regard to ensuring a balanced implementation of the Programme strategy, targeted development work was also started in 2002 by the Programme Executive aimed at stimulating the number of projects being developed by partner organisations. This work was focused primarily on developing new activity in the Food and Drink and Forest Products strategic sectors and was in response to a major under-representation in applications received in 2002 which were geared to supporting these sectors.

### **3.2.9 Priority 3: Community Economic Development**

#### Purpose of the Priority

In common with many other regions of Europe, the East of Scotland encompasses local communities and sections of the population who are marginalised to a greater or lesser degree by the process of economic and social change. Recent years have seen a growing recognition that the exclusion of individuals, groups, areas or communities from access to opportunities to make the most of their human potential not only reflects adversely on our commitment to social justice but also represents an under-utilisation of resources which constrains the pace and direction of economic growth.

The need for action is addressed in the wider framework of national and European policy, and is further reflected in the vision and statement of aims and objectives for the East of Scotland Objective 2 Programme 2000 - 2006. Policy coherence and operational integration with those activities being delivered under the Government's agenda on social inclusion, in particular Social Inclusion Partnerships (SIPs) and Community Planning is central to this Priority and supporting measures.

The other priorities of the Programme will contribute in other ways to tackling the range of problems on a practical level. The Programme would however be incomplete without measures which respond directly to local communities and Priority 3 is designed to do that.

The central goal of this Priority is to encourage communities and excluded groups to examine, assess and determine their own economic and social development needs and opportunities, to translate these aspirations into practical achievable projects (possibly with mentoring or advisory support); to secure ERDF and appropriate matched funding to launch and deliver their projects; and to gain experience that will enable them to pursue additional opportunities in the future beyond 2006.

The strengthening of the capability of local communities and their people throughout the East of Scotland to create and/or access new enterprise and employment opportunities in the region will be pursued through the delivery of three Operational Measures, each of which is targeted at a specific community economic development opportunity:

- 3.1: CED Engagement and Capacity Building
- 3.2: CED Implementation – Spatial Targeting
- 3.3: CED Implementation – Thematic Activity

Summary of Financial Performance in Priority 3 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	27	17	£5,091,164	£4,057,153	£2,375,952	£1,951,624
Transition	35	21	£3,991,056	£2,533,129	£1,765,630	£1,030,486
<b>Total</b>	<b>62</b>	<b>38</b>	<b>£9,082,220</b>	<b>£6,590,282</b>	<b>£4,141,582</b>	<b>£2,982,110</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	27	17	7.961	6.344	3.716	3.051
Transition	35	21	6.241	3.961	2.761	1.611
<b>Total</b>	<b>62</b>	<b>38</b>	<b>14.202</b>	<b>10.305</b>	<b>6.477</b>	<b>4.662</b>

Cumulative Summary of Financial Performance in Priority 3 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	79	49	£16,916,358	£4,127,730	£8,166,566	£1,986,913
Transition	88	59	£10,336,176	£2,585,524	£4,278,918	£1,056,684
<b>Total</b>	<b>167</b>	<b>108</b>	<b>£27,252,534</b>	<b>£6,713,254</b>	<b>£12,445,484</b>	<b>£3,043,597</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	79	49	26.923	6.457	13.002	3.107
Transition	88	59	16.416	4.045	6.791	1.653
<b>Total</b>	<b>167</b>	<b>108</b>	<b>43.339</b>	<b>10.502</b>	<b>19.793</b>	<b>4.760</b>

Analysis of Priority 3 Indicators**Intermediate Results and Impacts**

Approved Indicator	SPD Target	Forecast Target	% Allocation Committed	% SPD Target met by Forecast	Actual Achieved	% Allocation Paid Out	% SPD Target met by Actual
Total gross new sales in SMEs (£million)	72	1.77	35%	2%	0	8%	0%
Total gross direct jobs in SMEs	1,780	1,186	35%	67%	682	8%	38%
Total gross safeguarded jobs in SMEs	763	1,079	35%	141%	270	8%	35%
Total Net Jobs Created /Safeguarded	1,431	*	35%	*	*	8%	*
Net New Jobs Created	1,002	*	35%	*	*	8%	*
Net Safeguarded Jobs	429	*	35%	*	*	8%	*
Gross Additional CED Residents into Employment	2,143	*	35%	*	*	8%	*
Total Net Value-Added Created/Safeguarded (£million)	26.90	*	35%	*	*	8%	*
Net New Value-Added (£million)	18.80	*	35%	*	*	8%	*
Net Safeguarded Value-Added (£million)	8.10	*	35%	*	*	8%	*

\* Not possible to establish figures from individual applications. Programme-wide figures to be confirmed at Final Evaluation stage

**3.2.10 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 Financial Performance in Measure 3.1 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	0	0	£2,000	£281,958	£1,000	£140,980
Transition	0	0	£0	£118,198	£0	£59,099
<b>Total</b>	<b>0</b>	<b>0</b>	<b>£2,000</b>	<b>£400,156</b>	<b>£1,000</b>	<b>£200,079</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	0	0	0.003	0.441	0.002	0.220
Transition	0	0	0	0.185	0	0.092
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0.003</b>	<b>0.626</b>	<b>0.002</b>	<b>0.312</b>

### Cumulative Summary of Financial Performance in Measure 3.1 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	10	7	£369,493	£288,458	£184,745	£144,230
Transition	13	10	£221,346	£129,295	£110,672	£64,648
<b>Total</b>	<b>23</b>	<b>17</b>	<b>£590,839</b>	<b>£417,753</b>	<b>£295,417</b>	<b>£208,878</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	10	7	0.592	0.451	0.297	0.225
Transition	13	10	0.355	0.203	0.177	0.101
<b>Total</b>	<b>23</b>	<b>17</b>	<b>0.947</b>	<b>0.654</b>	<b>0.474</b>	<b>0.326</b>

### Analysis of Measure 3.1 Indicators

#### **Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
No. of community appraisals completed	109	48	5%	44%	50	4%	46%
No. of community development plans prepared	30	26	5%	87%	21	4%	70%

#### **Intermediate Results**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
No. of community development plans implemented	30	9	5%	30%	12	4%	40%

### 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. As a result, there was only a **5%** grant commitment level as at 31 December 2002. 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 in the Programme to date 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 was predominantly being to ensure the initial engagement of local communities into the CED plan process via short targeted pieces of work. Notwithstanding bespoke projects aimed at updating established CED plans, the initial engagement exercise has now been completed in all CED areas. 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.

**3.2.11 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 Financial Performance in Measure 3.2 in 2002

Financial Information expressed in £

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	20	14	£4,366,954	£3,775,195	£2,013,848	£1,810,644
Transition	25	17	£2,499,326	£2,414,931	£1,108,204	£971,387
<b>Total</b>	<b>45</b>	<b>31</b>	<b>£6,866,280</b>	<b>£6,190,126</b>	<b>£3,122,052</b>	<b>£2,782,031</b>

Financial Information expressed in MEUROS

	<b>No. of Projects appraised in 2002</b>	<b>No. of Projects approved in 2002</b>	<b>Forecast Expenditure in 2002</b>	<b>Declared Expenditure in 2002</b>	<b>Grant Committed in 2002</b>	<b>Grant Paid in 2002</b>
Eligible	20	14	6.829	5.903	3.149	2.831
Transition	25	17	3.908	3.776	1.733	1.519
<b>Total</b>	<b>45</b>	<b>31</b>	<b>10.737</b>	<b>9.679</b>	<b>4.882</b>	<b>4.350</b>

### Cumulative Summary of Financial Performance in Measure 3.2 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	62	39	£15,824,655	£3,839,272	£7,620,717	£1,842,683
Transition	64	45	£8,623,100	£2,456,229	£3,510,820	£992,036
<b>Total</b>	<b>126</b>	<b>84</b>	<b>£24,447,755</b>	<b>£6,295,501</b>	<b>£11,131,537</b>	<b>£2,834,719</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	62	39	25.202	6.006	12.140	2.882
Transition	64	45	13.728	3.842	5.586	1.552
<b>Total</b>	<b>126</b>	<b>84</b>	<b>38.930</b>	<b>9.848</b>	<b>17.726</b>	<b>4.434</b>

### Analysis of Measure 3.2 Indicators

#### **Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
No. of instances of assistance to existing businesses in areas of most need	227	2,990	43%	1,317%	1,451	11%	639%
No. of instances of assistance to existing businesses owned or managed by women	65	299	43%	460%	140	11%	215%
No. of existing assisted businesses from areas most in need	113	2,038	43%	1,804%	841	11%	744%
No. of existing assisted businesses owned or managed by women	32	204	43%	637%	84	11%	262%
No. of instances of assistance to new businesses in areas of most need	57	68	43%	119%	4	11%	7%
No. of instances of assistance to new businesses owned or managed by women	32	7	43%	22%	0	11%	0%
No. of new assisted businesses from areas most in need	57	571	43%	1,002%	298	11%	523%
No. of new assisted businesses owned or managed by women	32	171	43%	535%	0	11%	0%

Hectares of serviced land created or enhanced (brownfield)	2	2.69	43%	134%	1	11%	50%
Sqm of business space created in areas of most need	8,860	2,382	43%	27%	1,525	11%	17%
Sqm of business space enhanced in areas of most need	13,291	4,100	43%	31%	2,960	11%	22%
No. of training/learning facilities created in areas of most need	16	38	43%	237%	35	11%	219%
No. of training/learning facilities enhanced in areas of most need	16	3	43%	19%	1	11%	6%
Sqm of training/learning facilities created in areas of most need	805	613	43%	76%	553	11%	69%
Sqm of training/learning facilities enhanced in areas of most need	805	0	43%	0%	0	11%	0%
No. of childcare facilities created in areas of most need	32	23	43%	72%	55	11%	172%
Total no. of community facilities created	3	73	43%	2,433%	20	11%	667%
Total no. of community facilities enhanced	3	14	43%	467%	3	11%	100%
Total sqm of community facilities created	17,367	1,415	43%	8%	614	11%	4%
Total sqm of community facilities enhanced	17,367	60	43%	0%	70	11%	0%
No. of community services supported	1,200	1,143	43%	95%	948	11%	79%
No. of community groups supported with admin. of Key Funds or similar	15	98	43%	653%	1	11%	7%
No. of community ICT projects supported	30	215	43%	717%	116	11%	387%
No. of community transport projects supported	30	4	43%	13%	3	11%	10%
No. of community waste management facilities created	10	0	43%	0%	0	11%	0%
No. of community waste management facilities enhanced	40	0	43%	0%	0	11%	0%

**Intermediate Results**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
No. of gross new jobs created in areas defined as most in need	1,175	1,111	43%	95%	682	11%	58%
No. of gross new jobs created for women	671	726	43%	108%	314	11%	47%
No. of jobless people from areas of most need securing employment	705	2,837	43%	402%	982	11%	139%
No. of people under 25 from areas of most need securing employment	235	610	43%	260%	337	11%	143%
Total gross jobs created through self employment	40	168	43%	420%	19	11%	47%
Gross jobs created for women through self employment	16	0	43%	0%	0	11%	0%
No. of jobs safeguarded in areas of most need	503	994	43%	198%	270	11%	54%
Gross no. of jobs for women safeguarded	288	298	43%	104%	81	11%	28%
Increase in sales in existing businesses (£million)	49.00	0	43%	0%	0	11%	0%
Increase in sales in new businesses (£million)	21.00	0	43%	0%	0	11%	0%
Total sqm of business space occupied after 18 months	15,823	0	43%	0%	0	11%	0%
Total sqm of business space occupied after 36 months	26,899	0	43%	0%	0	11%	0%
No. of organisations which introduce active people friendly policies	243	72	43%	30%	16	11%	7%
Total no. of organisations undertaking environmental management	49	1	43%	2%	0	11%	0%
Hectares of natural habitat management	9	0	43%	0%	0	11%	0%
No. of childcare places created in areas of most need	460	0	43%	0%	0	11%	0%

### Progress to Date in implementing Measure 3.2 and Issues

After a reasonable start in 2001 the level of commitment and forecast physical activity in Measure 3.2 continued to improve during the year. As a result, there was a **43%** grant commitment level as at 31 December 2002. This improvement can be explained by the fact that many of the designated CED areas have now established quite robust CED partnerships and are actively in the process of developing new projects linked to agreed plans. It is anticipated that this trend will continue in 2003. It should be noted though that the average size of a CED project is considerably smaller than more strategic projects submitted in Priorities 1 and 2. As a consequence, although there is a fairly high volume of new bids received per application round, this rate of interest will need to be maintained in order to ensure full financial and physical implementation of the measure.

With regard to the monitoring data included in the above tables, it is clear that some indicators have very high forecast and actual figures. The Programme Executive will work with sponsors during 2003 to ensure the integrity of the Measure 3.2 data.

On a technical point, the average grant intervention rate for those existing commitments in Measure 3.2 eligible exceed the agreed average grant intervention rate for the measure as detailed in the SPD. Although the situation is manageable in the short-term, it required projects submitted in 2002 to accept on average a slightly lower level of grant in order to ensure that the average grant rate at final closure does not exceed that identified for Measure 3.2 in the SPD financial tables. This situation will continue to be closely reviewed in 2003.

**3.2.12 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 Financial Performance in Measure 3.3 in 2002

Financial Information expressed in £

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
Eligible	7	3	£722,210	£0	£361,104	£0
Transition	10	4	£1,491,730	£0	£657,426	£0
<b>Total</b>	<b>17</b>	<b>7</b>	<b>£2,213,940</b>	<b>£0</b>	<b>£1,018,530</b>	<b>£0</b>

Financial Information expressed in MEUROS

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
Eligible	7	3	1.129	0	0.565	0
Transition	10	4	2.333	0	1.028	0
<b>Total</b>	<b>17</b>	<b>7</b>	<b>3.462</b>	<b>0</b>	<b>1.593</b>	<b>0</b>

### Cumulative Summary of Financial Performance in Measure 3.3 as at 31 December 2002

Financial Information expressed in £

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	7	3	£722,210	£0	£361,104	£0
Transition	11	4	£1,491,730	£0	£657,426	£0
<b>Total</b>	<b>18</b>	<b>7</b>	<b>£2,213,940</b>	<b>£0</b>	<b>£1,018,530</b>	<b>£0</b>

Financial Information expressed in MEUROS

	<b>Total No. of Projects appraised</b>	<b>Total No. of Projects approved</b>	<b>Total Forecast Expenditure</b>	<b>Total Declared Expenditure</b>	<b>Total Grant Committed</b>	<b>Total Grant Paid</b>
Eligible	7	3	1.129	0	0.565	0
Transition	11	4	2.333	0	1.028	0
<b>Total</b>	<b>18</b>	<b>7</b>	<b>3.462</b>	<b>0</b>	<b>1.593</b>	<b>0</b>

### Analysis of Measure 3.3 Indicators

#### **Physical Outputs**

<b>Approved Indicator</b>	<b>SPD Target</b>	<b>Forecast Target</b>	<b>% Allocation Committed</b>	<b>% SPD Target met by Forecast</b>	<b>Actual Achieved</b>	<b>% Allocation Paid Out</b>	<b>% SPD Target met by Actual</b>
No. of instances of assistance to existing businesses in areas of most need	36	1,181	24%	3,281%	0	0%	0%
No. of instances of assistance to existing businesses owned or managed by women	10	0	24%	0%	0	0%	0%
No. of existing assisted businesses from areas most in need	18	310	24%	1,722%	0	0%	0%
No. of existing assisted businesses owned or managed by women	5	0	24%	0%	0	0%	0%
No. of instances of assistance to new businesses in areas of most need	9	7	24%	78%	0	0%	0%
No. of instances of assistance to new businesses owned or managed by women	5	0	24%	0%	0	0%	0%
No. of new assisted businesses from areas most in need	9	52	24%	578%	0	0%	0%
No. of new assisted businesses owned or managed by women	5	0	24%	0%	0	0%	0%
No. of community services supported	120	193	24%	161%	0	0%	0%



No. of community groups supported with admin. of Key Funds or similar	10	0	24%	0%	0	0%	0%
No. of community ICT projects supported	15	2	24%	13%	0	0%	0%
No. of community transport projects supported	15	0	24%	0%	0	0%	0%

### Intermediate Results

Approved Indicator	SPD Target	Forecast Target	% Allocation Committed	% SPD Target met by Forecast	Actual Achieved	% Allocation Paid Out	% SPD Target met by Actual
No. of gross new jobs created in areas defined as most in need	71	75	24%	106%	0	0%	0%
No. of gross new jobs created for women	41	0	24%	0%	0	0%	0%
No. of jobless people from areas of most need securing employment	42	2	24%	5%	0	0%	0%
No. of people under 25 from areas of most need securing employment	14	0	24%	0%	0	0%	0%
No. of jobs safeguarded in areas of most need	31	85	24%	274%	0	0%	0%
Gross no. of jobs for women safeguarded	18	0	24%	0%	0	0%	0%
Increase in sales in existing businesses (£million)	2.00	1.77	24%	88%	0	0%	0%
Increase in sales in new businesses (£million)	1.00	0	24%	0%	0	0%	0%
No. of organisations which introduce active people friendly policies	39	0	24%	0%	0	0%	0%

### Progress to Date in implementing Measure 3.3 and Issues

Following a blank year in 2001, some projects were supported during 2002. As a result, there was a **24%** grant commitment level in Measure 3.3 as at 31 December 2002. The pattern of commitment in this measure is understandable, as the priority at this stage of the CED process has been to develop Measure 3.2 activity, which is solely at the neighbourhood level or operating within distinct local authority boundaries. The experience in 2002 seems to indicate 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.

With regard to the monitoring data included in the above tables, it is clear that some indicators have very high forecast figures. The Programme Executive will work with sponsors during 2003 to ensure the integrity of the Measure 3.3 data.

On a technical point, the average grant intervention rate for those existing commitments in Measure 3.3 (eligible and transition) exceed the agreed average grant intervention rate for the measure as detailed in the SPD. Although the situation is manageable in the short-term, it will require projects submitted in 2003 to accept on average a slightly lower level of grant in order to ensure that the average grant rate at final closure does not exceed that identified for Measure 3.3 in the SPD financial tables. This situation will continue to be closely reviewed in 2003.

### **3.3 Modifications to the Programme Complement**

The Programme Complement was endorsed by the Programme Monitoring Committee at their meeting of 10 September 2001.

The Programme Monitoring Committee gave their approval subject to the inclusion of responses as a result of the ex-ante evaluators comments and the Commission's specific requirements and guidance.

The areas for revision included the need for:

- Measure Objectives
- Codes of Intervention in financial tables
- Average grant rates per measure in financial tables

These changes were made over this period and following consultation the Programme Complement was formally submitted to the Commission in August 2002. The Programme Complement financial tables included in this submission are attached for information as Annex 1(ii)

The Commission formally approved the Programme Complement on 7 October 2002.

Following the decision of the Monitoring Committee on 21 October 2002 to agree the virement of 3.3 MEURO from Measure 2.2 transition to Measure 2.1 transition, a further revision was made to the Programme Complement financial tables to reflect this change. These are attached for information as Annex 1(iii).

### **3.4 Actions in Favour of EES and NEAP**

The implementation of European Structural funds in Scotland supports the four pillars of the European Employment Strategy (EES) as outlined in the National Employment Action Plan (NEAP). Throughout 2002, ESF funds from the Scottish Objective 3 Programme continued to add value to national programmes,

working with the Employment Service and training organisations maximising the benefits of both ESF and New Deal. The Objective 3 Programme also continued to work alongside Enterprise Organisations, encouraging and supporting business foundation as well as offering training and support to existing SME's.

The Scottish Executive also set out a number of documents in 2002 relating to entrepreneurship and employment which support the EES and have established multi-agency task forces to develop strategies which relate to; economic development, enterprise, lifelong learning developing demand led sector initiatives and promoting social inclusion. ESF Objective 3 funds can either support or complement all of these.

In order to stimulate more ESF applications in 2002, the Objective 3 Programme Executive instigated a rolling programme of deadlines for most of the operational priorities, which now allow applications to be submitted at any time. The Scottish Executive and the Objective 3 Programme Executive are also working with Scottish Executive departments and partner organisations throughout Scotland to encourage the development and submission of quality bids.

During 2002, the Objective 3 Programme Executive also worked extensively with applicant organisations on the implementation of the horizontal themes. Across the whole of the Objective 3 Programme, both in the appraisal process and during monitoring visits, applicants must demonstrate ways in which they are ensuring these are integrated into each stage of the project delivery. This ensures that the ideology underpinning the EES is apparent throughout the delivery of the Objective 3 Programme in Scotland.

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 and Measure 3.2 a number of training infrastructure projects have been funded to date, 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 Programme.

### **3.5 Horizontal Themes**

This short section considers the implementation of the horizontal themes in the Programme based on the project commitments made in 2002. 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 85 – 99.

Many projects are contributing positively towards the horizontal themes targets agreed in the SPD. A selection of the key targets is listed below with current forecast and actual figures drawn from approved ERDF application and claim forms across the different measures of the Programme. Some indicators such as 'the number of organisations which introduce active people 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. 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.

<b>Sustainable Development Indicator</b>	<b>Forecast Target</b>	<b>Actual Achieved</b>
No. of organisations which introduce active people friendly policies	621	61
Total no. of organisations undertaking environmental management	962	115
Total no. of environmental partnerships supported	3	0
Hectares of serviced land created or enhanced (brownfield)	91.45	1.07
Hectares of natural habitat management	4,000	4,000

<b>Equal Opportunities Indicator</b>	<b>Forecast Target</b>	<b>Actual Achieved</b>
No. of gross new jobs created for women	9,409	756
No. of existing assisted businesses owned or managed by women	5,985	2,257
No. of new assisted businesses owned or managed by women	1,249	187
No. of gross new jobs created in areas defined as most in need	7,815	971
No. of existing assisted businesses from areas most in need	9,091	3,375
No. of new assisted businesses from areas most in need	1,487	440
Total no. of childcare facilities created	25	55

## 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 performance reserve targets set out in the Programme Complement against forecast and reported activity as at 31 December 2002.

Approved Indicator	Overall Programme Target	Agreed Performance Reserve Target	Forecast Targets Approved to Date*	Actual Achieved	% Actual Achievement of Performance Reserve target
<b>Physical Outputs</b>					
<b>Priority 1: Strategic Economic Development</b>					
Number of SMEs assisted	12,323	3,697	17,492	3,605	98%
Number of instances of assistance to new businesses	4,267	1,280	8,974	1,311	102%
Number of instances of assistance to existing businesses	15,647	4,694	37,327	7,629	163%
<b>Priority 2: Strategic Locations and Sectors</b>					
Area of business space created or enhanced (sqm)	196,533	39,307	52,957	5,207	13%
Area of serviced land created/enhanced (ha)	83	17	253.76	15.07	89%
Number of SMEs assisted	1,559	312	24,487	11,072	3,549%
Number of instances of assistance to existing businesses	2,005	401	41,131	21,793	5,435%
Number of instances of assistance to new businesses	556	111	1,087	350	315%
Number of strategic environmental/ forestry partnerships funded	6	1	3	0	0%
<b>Priority 3: Community Economic Development</b>					
Number of SMEs assisted	282	85	2,971	1,139	1,340%
Area of Economic & Social Infrastructure created/upgraded (sqm)	2,300	460	1,475	684	149%
Number of instances of assistance to existing businesses	376	113	4,171	1,451	1,284%
Number of instances of assistance to new businesses	94	28	75	4	14%
Number of childcare facilities created	46	9	23	55	611%

Approved Indicator	Overall Programme Target	Agreed Performance Reserve Target	Forecast Targets Approved to Date*	Actual Achieved	% Actual Achievement of Performance Reserve target
<b>Intermediate Results</b>					
<b>Priority 1: Strategic Economic Development</b>					
Gross number of new jobs created	10,394	2,079	10,902	2,113	102%
Gross number of jobs safeguarded	4,454	891	10,584	2,996	336%
Increase in sales in assisted SMEs (£m)	800	160	248.81	40.53	25%
Number of patent/intellectual property rights registrations by assisted SMEs	449	90	67	10	11%
Number of SMEs undertaking Environmental Management	1,147	229	958	115	50%
<b>Priority 2: Strategic Locations and Sectors</b>					
Gross number of new jobs created	4,697	705	13,945	894	127%
Gross number of jobs safeguarded	9,675	1,451	6,521	859	59%
Increase in sales in assisted SMEs (£m)	222	33	145.55	14.67	44%
Increase in visitor numbers, millions, gross	2,572,000	385,800	6,789,908	921,078	239%
Area of natural habitat under management (ha)	50	8	4,000	4,000	50,000%
<b>Priority 3: Community Economic Development</b>					
Gross number of new jobs created	1,780	267	1,186	682	255%
Gross number of jobs safeguarded	763	114	1,079	270	237%
Increase in sales in assisted SMEs (£m)	72	11	1.77	0	0%
Number of organisations introducing active EO/ family friendly/ environmental policies	282	42	72	16	38%

\* The figures in the 'Forecast Targets Approved to Date' column are gathered from approved projects (many 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 2002 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 2003. Delays were experienced in finalising project monitoring forms during 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 2002.

*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 contract for the mid-term evaluation was tendered in 2002. A detailed report on progress to date is included on page .

#### **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 15%, or 10.67 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 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 PMEs 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. These revised targets have been used in this report. 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 31<sup>st</sup> December 2003.

The various changes to the performance reserve indicators were completed satisfactorily during the year and the Commission issued a revised decision for the East of Scotland Programme on 30 August 2002.



## **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.

There were three Monitoring Committee meetings held during 2002. The dates of these meetings and the key decisions taken at them are outlined below:

- 13 February 2002 – amongst the key decisions taken at this extraordinary meeting was to agree the commissioning of a voluntary sector needs analysis and a proposal to review how ERDF should continue to be used to support training infrastructure in the East of Scotland. It was agreed that both of these studies should be funded through technical assistance. The Committee also agreed a report from the Working Group on Risk Capital which had been set up in 2001.
- 15 April 2002 – amongst the key decisions taken at this meeting was to consider a draft copy of the 2001 and agree that a final version of this document could be agreed through written procedure. The Committee also agreed the draft terms of reference for the mid-term evaluation and an indicative allocation of £30,000 from technical assistance to co-finance this work.

- 21 October 2002 - amongst the key decisions taken at this meeting was to agree an Action Plan aimed at assisting the Programme to meet its N+2 target figure by 31 December 2003. The Plan is comprised of a range of actions which it is hoped will increase both the level of grant claims received and the number of new project applications being developed. The Committee also agreed in principle a virement proposal to transfer 3.3MEURO from Measure 2,2 transition to Measure 2.1 transition. In addition, the Committee agreed a proposal to use technical assistance to establish a Labour Market Information Unit in the Lothians.

The agendas and minutes for all these three PMonC meetings can be obtained on request from the Programme Executive. In addition to these formal meetings, the written procedure mechanism was used on four occasions during 2002 in order to approve the 2001 AIR and the Final Reports for the Eastern Scotland Objective 2 Programme 1994 – 1996 and the RECHAR II Programme 1994 - 1999.

### **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.

There were three Management Committee meetings held during 2002. At these meetings, ERDF applications were formally endorsed for approval and any key operational issues raised in the various advisory group reports were discussed. In addition, any justified requests from sponsors to revise previously approved projects to take account of cost changes or changes in their implementation arrangements were also considered by this Committee. The dates of these meetings are listed below:

- 01 February 2002
- 30 May 2002
- 04 October 2002

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

### **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. These three advisory groups are chaired by senior staff from the independent Programme Management Executive (PME). 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.

### **5.2.4 Advisory Group Reports**

#### Report of the Strategic Economic Development Advisory Group

This advisory group met on 6 occasions during 2002.

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 effective strategic planning in the provision of local business development services;
- the delays being experienced in developing eligible risk capital projects;
- the potential use of overheads in Priority 1 applications;
- 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 1.1 and 1.3.

#### Report of the Strategic Locations & Sectors Advisory Group

This advisory group met on 7 occasions during 2002.

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 global security and economic uncertainties;
- the need for resource virement from Measure 2.2 transition to Measure 2.1 transition in order to meet a project overbid; and,
- issues surrounding the appraisal of the Biomedical Research Institute from the University of Edinburgh. Due to its size, the sponsor was required to submit a large project application form, a cost benefit analysis and an environmental assessment to the Commission before ERDF grant could be awarded to this scheme.

### Report of the Community Economic Development Advisory Group

This advisory group met on 6 occasions during 2002.

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 implementation of local development plans which were agreed for all designated CED wards in the Programme area in line with the strategy outlined in the approved SPD document;
- agreeing an approach for supporting community learning facilities under Measure 3.2;
- highlighting the importance of supporting community transport projects, especially in rural areas, under Priority 3;
- the importance of supporting credit union development in CED areas;
- ways in which to support community businesses and social enterprises;
- encouraging the voluntary sector to access ERDF grant for additional targeted activity;
- the potential use of overheads in certain revenue applications; and,
- the relatively low level of project applications received in Measure 3.3 and the development of guidance to address this situation.

#### **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. The selection criteria were reviewed in late 2001/early 2002 to ensure that the twelve core questions were compatible with the principles of promoting sustainable development and equal opportunities. 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 2002 the Objective 3 Programme and the three Objective 2 Programmes in Scotland continued to build on the good work undertaken in 2001 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 2002 an Objective 2/3 Co-ordination Group operated 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 2002 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;
- 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 complementarity to be fed into that appraisal.

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 Key Policies 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 relating to sustainable development and also acknowledges that the Scottish Objective 3 Programme has developed particular expertise and experience in the field of equal opportunities. The Objective 3 PME was also involved in many of the horizontal themes awareness raising events undertaken in the Programme Area during 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 Active Promotion of the Horizontal Themes in the East of Scotland***

#### ***Background***

From 1997 to 1999, the East of Scotland took part as one of 12 European Regions in an EC sponsored pilot study of applying sustainable development to Structural Funds Programmes. This gave a focus and impetus to the regional partnership's engagement with the horizontal themes of sustainable development and equal opportunities.



The original pilot study was undertaken through extensive consultation with members of the Partnership. The outcome was to adopt an approach which aimed to embed and mainstream the horizontal themes throughout the Structural Funds Programmes operating in the East of Scotland. The primary tool for achieving this was to base project selection on a set of core criteria which reflect the full range of economic development, social inclusion, equal opportunity and environmental sustainability objectives of the Programme. This approach was subsequently commended by the Scottish Executive in their guidance on compliance with the EC requirements to mainstream the horizontal themes.

A feature of this particular approach to mainstreaming is that it aims to make sustainable development and, within this context, equal opportunities, as integral to the Programme as a whole and to all projects. It does not treat these themes as discrete or separable strands of an economic development programme. For this reason, development and monitoring of the horizontal themes is intimately bound with development and monitoring of the Programme as a whole.

Following the original pilot study and the successful implementation of the core criteria for project selection, further work saw integration of the approach into the 2000 - 2006 Programme. This field of activity is overseen by the Key Policies Group, which comprises representatives from the Partnership, including the Programme Executive, environmental agencies, local authorities, Scottish Enterprise and the Programme's sustainable development consultant adviser. It is chaired by the Programme's Director. The sustainable development and equal opportunities advisers for all Scottish Programmes also serve on the Group, as does a representative of the Scottish Objective 3 Programme, with whom close links are maintained.

#### *Positive actions undertaken to date*

In line with the established priorities of the Key Policies Group, activity on mainstreaming the horizontal themes to date has included:

- Re-assessment of the 12 core criteria. After 3 years' experience of their practical application, it was considered prudent to re-assess the core criteria. This confirmed their usefulness, and led to strengthening the references to Partnership and Equal Opportunities, and sought to further clarify criteria directed at environmental sustainability;
- Awareness- raising workshops. The programme of awareness-raising was continued in 2002;
- Support for major project applications. Action was initiated to support and strengthen the way in which the horizontal themes are addressed within major project applications, in particular for the Edinburgh Biomedical Research Institute (ERDF grant now awarded);

- Re-design of Application Forms. As part of the Business Process Review process, work was undertaken on the re-design of the Programme's ERDF application form, to give better expression to the horizontal themes by enabling applicants to set out their projects against the 12 core criteria; and, for implementation in 2003,
- Update Report and Revised Guidance. Work has been set in hand preparing an Update Report on the East of Scotland approach to sustainable development and, in particular, revised guidance for project applicants and Advisory Group members to accompany the revised project application forms.

Members of the Key Policies Group have also taken part in consultation on the Mid Term Evaluation of the 2000 – 2006 Objective 2 Programme. It may also be noted that the Scottish Executive's report on the 2002 Spending Round, *Building a Sustainable Scotland*, draws attention to the role of the Structural Funds Programmes in contributing to overall activity on Scotland on sustainable development.

#### **5.4.3 Promotion of Equal Opportunities in 2002**

The Scottish Structural Funds Equal Opportunities Forum was established in 2000 and is made up of representatives from the five Structural Funds Programme Management Executives, the Scottish Executive Structural Funds Division and Equality Unit, COSLA, Scottish Enterprise, SCVO, and the Scottish Parliament's Equal Opportunities Committee.

A training and development strategy was drawn up to mainstream equalities in the Scottish Structural Fund programmes and it was agreed that a seconded post of national Equal Opportunities Adviser would be created.

The remit of the Equal Opportunities Forum was amended in 2002 as follows:

- to consider all aspects of mainstreaming equal opportunities in the Scottish Programmes during the period 2000 - 2006 and to advise the Scottish Executive and the PMEs accordingly;
- to identify good practice in mainstreaming equal opportunities throughout the Scottish Programmes and to provide advice on its dissemination through the Scottish Executive and the Programme Executives;
- to identify obstacles to mainstreaming equal opportunities and to draw up an action plan to combat these obstacles;
- to monitor the collection of appropriate data on the equal opportunities aspects of the Structural Fund programmes and to advise the Scottish Executive; and,
- to advise the Programme Executives and the Scottish Executive on areas of focus for the Equal Opportunities Adviser.

The Equal Opportunities Adviser has been in post since September 2002 and works closely with the 5 Scottish Programme Management Executives (PME) in order to give support and assistance in mainstreaming equal opportunities in the Structural Fund programmes. The post is funded jointly by the Scottish Executive Equalities Unit and the five Scottish Programmes and is based in offices of the East of Scotland Programme Executive in Dunfermline for the period of the two-year secondment.

The work priorities of the Advisor's post include:

- working with Partnerships to examine current practice on Equal Opportunities mainstreaming in Structural Fund programmes, and publicise good practice and share experience within and across programmes;
- examining systems used by PMEs to monitor Equal Opportunities and suggest improvements to monitoring systems;
- mapping out the training needs for PME staff and help develop appropriate training programmes to be undertaken by PMEs;
- advising Steering Groups and consultants on equalities issues in the Mid Term Evaluations of the programmes, and ensuring that the methodologies used in evaluation embed equal opportunities;
- discussing with equalities agencies the need to identify sources of baseline information;

- considering how to facilitate positive action projects; and,
- identifying and publicising good mainstreaming practice from other Member States which is transferable to Scottish Programmes.

There is a strong emphasis on sharing good practice from other EU Member States, and to highlight to policy makers that there are some very good examples of mainstreaming equalities in European funded projects here in Scotland.

At present, the adviser is working on the production of a business case for equalities, which is targeted at SMEs, but which will be of use to other organisations; and a selection of case studies where organisations have successfully taken on board equalities considerations in the development of their project activity. An updated report on the work of the adviser will feature in the 2003 AIR.

#### ***5.4.4 Partnership Training and Awareness-Raising in 2002***

There were a number of pro-active workshops held in 2002 which were aimed at mainstreaming the horizontal themes of Sustainable Development and Equal Opportunities and were targeted at individuals directly involved in the project appraisal process. These included:

- PME Workshop – 23 January 2002. The aim of this workshop was to enable PME staff to review the current approach to mainstreaming the horizontal themes and to establish what the priorities should be in terms of future development work. The outcomes of the workshop were positive and concluded that the approach to the horizontal themes was making a difference to the quality of submitted applications. However, it was felt that in some cases the message was not cascading down to all partner agencies. The main priorities for future work were identified as awareness raising workshops with the Advisory Groups and monitoring visits to establish progress towards the horizontal themes;
- Core Criteria Workshop - 22 May 2002. This workshop was arranged for members of the Key Policies Group and PME staff to re-visit the 12 Sustainable Development Core Criteria used for project appraisal. It was recognised that the original criteria had been developed three years ago and there was a need to re-visit them to ensure their continued relevance. The workshop concluded that the criteria were still relevant and there was no need to fundamentally revise them. Some minor adjustments were required but mainly in terms of adjusting the criteria and accompanying text to more fully explain to project applicants what is meant and to ensure that the promotion of equal opportunities is visible and explicit throughout;

- Advisory Group Workshops - November 2002. A series of half-day workshops were held with each of the three advisory groups in November 2002. The format for these workshops involved an initial presentation by the Partnerships' sustainable development consultant advisor. This was followed by an exploration of the advisory group members' experiences to date of using the 12 sustainable development core criteria in project appraisal; and culminated in a general discussion of mainstreaming good practice. The feedback from the workshops was positive with advisory group members reinforcing the adopted approach to mainstreaming the horizontal themes. However, it was recognised that further work was required in terms of identifying good practice and guidance/advice to applicants to ensure a full understanding of the horizontal themes.

Taking all of the above into account the Key Policies Group, the group which oversees the mainstreaming of the horizontal themes in the East of Scotland, has set the following work priorities for 2003. These are to:

- update guidance for the new application forms and to ensure that applicants fully understand the horizontal themes and how to address them in project development and implementation;
- disseminate realistic, clear, practical information on good practice and how such practice relates to the core criteria; and,
- adopt monitoring procedures to ensure that monitoring of the horizontal themes is fully integrated within formal monitoring visits.

In assessing these work priorities the Key Policies Group took the decision to update the Sustainable Development Final Report during 2002. This report, which was produced in 1999 as part of the Sustainable Development Pilot Project, has been the main reference document for providing information and guidance on the horizontal themes. However, the group felt that it was timely to update the report to incorporate identified examples of good practice and the updated guidance. The group also felt that it would be appropriate to update the report to describe the strategy of incorporating the horizontal themes of Equal Opportunities into Sustainable Development to ensure a coherent and integrated approach to mainstreaming

Monitoring procedures are also being revised to incorporate the assessment of the horizontal themes. Monitoring visits using the revised procedures will be conducted in 2003.

#### ***5.4.5 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. In view of the delays experienced in implementing the formal programme of project monitoring visits, the PME, in consultation with the Key Policies Group, agreed to undertake a separate and dedicated monitoring/evaluation exercise conducted by individuals with expertise in the horizontal themes for inclusion in the 2002 AIR. This study focused on four projects approved in the Programme and sought to assess and monitor how successful the sponsors had been to date in mainstreaming the horizontal themes.

#### **Report on the Project Monitoring Study**

##### ***Introduction***

To complement the range of broadly based development activities outlined previously described, detailed monitoring of a small number of approved projects was carried out to assess progress to date in implementing the horizontal themes. This exercise also sought to pilot the methodology and criteria which has been developed as part of the Programme's project monitoring procedures.

##### ***Methodology***

The methodology for the study involved a mixture of desk-based research and interviews with key Programme Executive and project staff. The monitoring process started with the Programme Executive selecting a broad range of projects from across the three Operational Priorities of the 2000 – 2006 Programme. The approved application form and support documentation for the selected projects were then studied by the Programme's sustainable development consultant advisor who undertook the monitoring study. The initial review of source documentation formed the basis for detailed consultation with Programme Executive staff to learn their perceptions of project progress. A series of project visits to interview key personnel from the implementing sponsor was then arranged.

The main purpose of the project visit was to review overall progress achieved to date on the project, then to re-assess it against the twelve core criteria used for project selection. In the course of the interview, and confirmed at the end, any appropriate recommendations on further action was identified and agreed. The monitoring process was then reported back to the Key Policies Group and any firm recommendations agreed with the individual project sponsors will be followed-up by Programme Executive staff.

### *The selected projects*

The four projects selected for monitoring visits covered seven approved applications spanning across the three Programme Priorities, and covering both eligible and transition areas. They were:

- 1. Tourism Niche Marketing: a large (and now completed) project to support the development of niche tourism marketing in the East of Scotland, and thereby creating significant support for SMEs and additional jobs;
- 2. Kilncraigs: a capital project for the restoration of a former mill in Alloa to provide two Centres: one for social entrepreneurship, the other for creative industries and enterprise, both in an area of deprivation.
- 3. Midlothian Business Development Programme: a project which provides business development support for micro-businesses and SMEs in Midlothian, employing specialist advisers and offering both grant and repayable grant finance; and,
- 4. Angus Rural Transport: a community based transport initiative using ICT to link underused transport resources with actual and latent transport demand in the depopulated rural glens of Angus.

### *Monitoring observations on Tourism Niche Marketing*

This is a significant marketing initiative focused on four niche tourism markets identified within the Scottish Executive's 'New Strategy for Tourism' of 2000. Although it is led by the Kingdom of Fife Tourist Board, it operates throughout the East of Scotland and includes four other area tourist boards. The initiative received a total ERDF grant of nearly £2.5m.

The project has been subject to a relatively recent and independent economic evaluation, which concluded that the project had exceeded its core economic development objectives in terms of net additional jobs and increased expenditure as forecast in the approved applications. Tourism is obviously a major industry in the East of Scotland, with a vast array of SMEs facing difficult times and as such it is properly identified as a priority for support in the Programme Complement.

Despite the positive economic impact, it was recognised during the original pilot project in 1997 that the juxtaposition of tourism and sustainable development present a conundrum. For this reason, the consultant found this the most difficult of the four projects visited to assess. On the one hand it is scarcely sustainable development to encourage people to travel, spend and consume. On the other hand, it is better that where such activity takes place it is both resource efficient and accessible to all. Further, and at a more fundamental level, since environmental quality is one of the assets that generate tourism, it can be a means by which that environment is valued, and resources are generated to secure its protection and enhancement. It can also deliver jobs, and recreation, to those otherwise economically excluded.

With regard to the promotion of equal opportunities, the project recognised that women tended to make most choices when it came to choosing destinations to visit, as well as them forming the majority of tourism providers in the Programme Area. The project sponsor also highlighted that equal opportunities training and awareness for tourism is provided through separate ESF schemes, of which many of the beneficiaries are drawn from disadvantaged areas. Increasing identification of provision for the disabled was noted by the consultant, with the emphasis being on access for all, though it could be argued that the number of those with disability might warrant their own niche market. In a similar vein, the project sponsor described how tourism marketing actively aims to assist visitor management to avoid adverse environmental impact (e.g. on SSSIs or woodland areas). In looking to the future, it was agreed that perhaps more could be made of the potential for 'environmental tourism', where visitors could take an active part in environmental improvement.



*Monitoring observations on Kilncraigs site*

This project involves the restoration of a derelict mill building in Alloa and is a potentially exciting initiative with considerable understated benefits, though it poses some challenging management issues. ERDF grant totalling nearly £1.5m has been approved from Measures 2.2 and 3.2 in order to establish a Centre for creative industries and a Centre for social entrepreneurship. This development forms part of the wider regeneration of the area which is also seeing significant private sector investment. For example, a new superstore forms an integral part of the wider regeneration scheme, and its generation of 290 jobs, of which 109 are reported as being for former long term unemployed, should be regarded as a beneficial output, albeit indirect, of the Kilncraigs project.

The consultant felt that an under-reported aspect of the approved project application forms was the extent of environmental features inherent in the building works. The striking glass atrium is designed to contribute to natural ventilation throughout the building, and is supported by computerised energy management. Approximately 18 inches of roof insulation has also been used. In addition, there is extensive re-use of materials, such as slates and timber flooring, while the whole project brings back into use a listed building as part of a wider brownfield scheme adjoining Alloa town centre.

The social and equal opportunities dimensions of the Kilncraigs site were also assessed. In addition to the provision of lifts and ramps, sensitivity had been applied to the issue of accessibility. The initial impression was that the two entrances provided 'first' and 'steerage' class access. However, the project manager persuasively argued that different users would be comfortable with different facilities. There was also serious effort made to provide special needs assistance, from the café planning to employ someone with learning disabilities to the inclusion of a range of social enterprise and not for profit agencies, with the potential to provide, and house, a range of support services. Sitting alongside will be commercial enterprises, with an emphasis on creativity. Overall, this could potentially be a prestigious and valuable project in the heart of CED area.

In the view of the consultant, a number of potentially challenging management and financial issues remain for the project sponsor to address in the coming year. The most obvious from a site inspection is the adjacent derelict section of the mill. This part of the building needs a beneficial use if it is not to detract from the overall development in a number of ways, not least security risks. The project manager also acknowledged the importance of maximising community involvement in the Kilncraigs development and the challenge of striking the right balance between securing wider involvement in the management of the Centre with retaining control by those who have the responsibility for the building - i.e. the Council. The final, and related challenge, will be in the day-to-day management of a facility which seeks to combine such disparate, potentially complementary, but also potentially disruptive, activities.

#### *Monitoring observations on the Midlothian Business Development Programme*

From the approved application, this project appeared to be a conventional mainstream business support programme. ERDF grant totalling over £750,000 has been approved from Measure 1.1 to support a programme which provides both advice and financial support to SMEs and micro-businesses in Midlothian. Financial support takes the form of small grants and/or repayable grants to assist businesses, particularly with relocation, expansion or adaptation. Since finance is only given where it is needed and where companies in receipt of grant continue in business, their jobs are assessed as safeguarded.

However, whilst the monitoring visit confirmed what appeared in the approved application, there was more to this project. Of particular interest to the consultant was the use of repayable grants as a means of recycling funds, even allowing for there being a degree of write-off because the scheme operates at the risky end of the market. This approach was viewed as an excellent example of securing longer term durability of business support and reducing dependency on European funding.

In terms of environmental sustainability, the strength of this project lies in its linkages into the work of the Midlothian Enterprise Trust (MET) and the Business Environment Partnership (BEP). MET/BEP have an established track record of working with SMEs on the business case for resource efficiency and reducing infrastructure and environmental impact, and the strong relationship between the programmes, with mutual referrals wherever appropriate reflects well on them both. Further, there was evidence of resource efficiency being combined with local added value, where firms undertaking recycling have been put in touch with local firms using recycled materials as raw materials for their businesses. The practical examples included tree pots from recycled plastics, and high value filtration medium from recycled glass.

The connections in the social inclusion and equal opportunities fields were more diffuse, but appeared to cover an impressive range of partners (MiTech, New Leaf, Childcare partnership), though it was less clear how well this knits together to provide a comprehensive support structure on equal opportunities and social inclusion issues. There may be some gaps and further potential here, though it is commendable that the project is approaching achievement of its target of 50% female participation. One area of potential identified would be to strengthen and expand activity in terms of the social economy.

Overall, the extent of linkages to broaden the scope of this project was impressive, and appeared to signify effective local partnership working. It might be noted that while the inter-dependency of agencies makes sense here, it raises the question of how similar projects may cope as well, in the absence of this network of expertise especially MET/BEP. A further welcome feature of the project is the proposal to use the opportunity of grant award letters to give guidance to final recipients on the importance of sustainable development and equal opportunities considerations in their businesses.

#### *Monitoring observations on Angus Rural Transport*

In the views of the consultant, the basis of this project is an excellent example of what is meant by sustainable development. Transport providers often have spare capacity - such as part-load journeys or empty return trips - which is inaccessible to potential users. The essence of 'demand responsive transport' is to link potential travellers to such spare capacity by using a central call centre as a virtual hub, with computer software to match journeys to capacity, plan routes, and communicate with vehicles. By applying this approach to the depopulated rural hinterland of small towns and settlements, there is the added potential for the project to play a positive role in rural regeneration. ERDF grant totalling over £126,000 has been approved from Measure 3.2 to support this exciting initiative.

The way in which this project has been set up also offers the potential for multiple spin-offs. There is already learning underway from comparative experience gained through the separate international project supported under the EU 5<sup>th</sup> Framework Programme. One aspect of this latter project has been to prepare an evaluation methodology for demand responsive transport. It is hoped that by making this methodology and the results for the Angus Rural Transport project available to the Programme Executive, overall monitoring and evaluation of this project will be greatly enhanced. The consultant also felt that it would be useful to be able to assess the increase in load factors for vehicles, and the extent of resource efficiency achieved and accessibility provided. The technology itself is innovative and undoubtedly has commercial potential. For example, it was claimed by the sponsor that a company in another part of the Programme Area had created 30 jobs to develop the transport mapping software and technology. Where it can be verified, this too should be recorded as part of the outcome of the ERDF-funded project.

There are also local spin-off benefits generating from the project. One is that transport can be tailored to the needs of individuals, with drivers informed of (and trained to deal with) needs ranging from wheelchair access, to deafness, agoraphobia, and dementia and to make provision accordingly. There is considerable potential for improved transport provision to promote rural regeneration by enabling activities to take place ranging from skills training to recreational activities such as walking events. The project manager also has a further host of ideas ranging from carrying freight, parcels or mail, to using alternative fuels (possibly with bio-diesel grown locally) which could also promote sustainable development.

Two main conclusions are drawn on this project. First, there is a need to ensure that the project does achieve against what may be termed its core business goals: the delivery of enhanced accessibility, with associated resource efficiency savings, such as fuel and costs. Here the new evaluation methodology may help. Secondly, there is a need to ensure that the wider benefits, ranging from the employment generated by the development of software to the rural development benefits secured locally, are all recognised as part of the project outcomes.

#### *Overall Assessment of Monitoring Study*

The Programme's approach to promoting sustainable development and equal opportunities is reflected in the 12 core criteria, which themselves form the basis for project selection, monitoring progress on the horizontal themes and monitoring overall project progress. It remains the case, as in the pilot monitoring carried out in early 2002 and featured in the 2001 AIR, that interviews based on the 12 criteria are not quite as comprehensive as workshop sessions, but the latter are much more demanding of staff time. Programme Executive staff who did not take part in the project visits felt that the interviews had captured the key points of project performance. This gave some validation of the monitoring methodology adopted and it is concluded from this short study that the current approach to monitoring in the East of Scotland is appropriate, thorough and will also be cost-effective.

This approach to monitoring will be assisted when the revised application form, together with its guidance and revised monitoring forms, all based on the 12 criteria, come into use. It is also recommended that in general, project monitoring visits should be conducted by Programme Executive staff, supported by members of the Key Policies Group where appropriate.

In forming an overall assessment on the progress being made on promoting the horizontal themes, it is likely that with a small sample (4 projects relating to 7 approved applications) the outcome will be highly dependent on the projects selected, and the attitude and awareness of the particular project managers. That said, when monitoring a similar number of projects one year ago the consultant felt that most projects had some readily identifiable underdeveloped potential, both in terms of environmental sustainability and equal opportunities. By comparison, this was much less evident this time. All four projects selected for this study showed clear awareness of sustainable development and equal opportunities issues, and most were either addressing them directly or doing so by linkage to related resources.

Of the four projects monitored, only one, the Angus Rural Transport project was radically different from former activity supported by the Structural Funds in the East of Scotland. It could be argued that the other three 'mainstream' projects show that the Programme's embedding of sustainable development has not distorted the Programme, or inhibited the primary focus on economic development activity. In fact, independent assessments on two of the selected projects, undertaken separately from this monitoring exercise, have shown that higher than forecast economic benefits are being secured.

In terms of environmental features, the outcomes were varied. However, this was more because of the nature of the projects rather than the extent of commitment or understanding of those responsible. In particular, Kilncraigs demonstrated some very positive environmental features, while the Angus Rural transport has very positive potential.

In terms of equal opportunities, the outcomes were also varied, though there was a general level of awareness and also responsiveness. The issue was not dismissed as just political correctness – rather it was something people wanted to positively contribute towards. Tackling disabilities of various kinds was a feature of several projects, and appeared to be more in evidence than a year ago. However, it was less clear how much reliance could be placed on linkages to training provided by others, or how much guidance reaches through to final recipients. In this respect the Midlothian project's proposal to draw attention to the horizontal themes in the award of grant letters to SMEs is a welcome initiative.

Overall, none of the projects gave major cause for concern. Because these projects operate with activities where the market has failed or is imperfect, they are at the risky end of enterprise activity, and the potential of Kilncraigs or the Angus Rural Transport projects will need nurturing to be realised and the downside potential avoided. Because sustainable development and equal opportunities are multi-faceted, there is no simple yardstick or precise measure of progress. The monitoring process being adopted in the East of Scotland aims to form a judgement on the direction of change against the spectrum provided by the 12 core criteria. However, the most significant overall impression of the consultant who undertook the study was the apparent under-reporting of progress towards the horizontal themes, and of the extent of beneficial linkage to related activities.

## **5.5 Monitoring and Evaluation**

### **5.5.1 Mid-term Evaluation**

A Mid-term evaluation is required under Commission regulations, the purpose of which is to establish how well the Structural Funds Programme is delivering its objectives; to test the continued relevance of the Programme Strategy, and to recommend any action necessary to improve Programme quality and performance.

Terms of reference were developed in mid summer 2002 and following a competitive tendering process interviews were held with prospective contractors on 30 August 2002. EKOS Ltd, economic consultants were commissioned in September 2002 to undertake this work and they have augmented their team with associate consultants who bring particular expertise and experience with regard to the Horizontal Themes. The work is overseen by a Mid-term Evaluation Steering Group, comprising membership from the key partnership constituencies and programme management structures of the Programme. The membership of the Steering Group also includes representation from the European Commission and is convened by the Scottish Executive as managing authority.

The key outputs of the Mid-term Evaluation are as follows:

- Commentary on whether and to what extent the Programme Strategy, as set out in the SPD and Programme Complement, is still relevant to the socio-economic circumstances of the area and to determine the extent to which it is still consistent with relevant local, national and EU strategies;
- An assessment of the level of progress that the Programme is making towards achieving its objectives as set out in the SPD, and in particular with regard to mainstreaming the Horizontal Themes;

- An assessment of the quality and effectiveness of the Programme's implementation and management arrangements including an examination of Partnership processes;
- An examination of the results achieved in relation to the Performance Reserve targets;
- Objective 2/3 complementarity;
- An assessment of the level of Community Added Value; and,
- Co-operation with the Nordrhein-Westfalen Objective 2 region in Germany and the West of Scotland Objective 2 Programme.

Prior to the production of the inception report in late September 2002, the Mid-term Evaluation contractors for all five Scottish Programmes were involved in a joint meeting with the Scottish Executive and the respective Programme Management Executives (PME) to discuss issues of common interest across the five Programmes, and to ensure consistency of approach where appropriate. Issues which were discussed included treatment of the Horizontal Themes, Performance Indicators, Performance Reserve and Objective 2/3 complementarity. Consultation interviews with the PME staff were undertaken by the contractor in October 2002. Initial progress was reported to the Monitoring Committee at its meeting on 21 October 2002. Committee members were appraised of the background, context, timetable and aspects of the study which were unique to the East of Scotland Programme. One of these aspects is the benchmarking or comparative study between the East and West of Scotland Objective 2 Programmes and the Nordrhein-Westfalen Objective 2 region in Germany. This joint study through the respective Mid-term Evaluations has a particular focus on mainstreaming the Horizontal Themes. The intention here is to share experience and exchange good practice. Two workshops are programmed. The first took place in Gelsenkirchen, Germany on 28 and 29 October 2002 and the second is planned for September 2003. This benchmarking study also involves the three Mid-term Evaluation contractors appointed for each of the Programmes, but is being led by EKOS on behalf of all three evaluators.

The Monitoring Committee at its meeting on 21 October 2002 also considered and agreed the process whereby partner submissions to request revisions to the designated Strategic Locations, Strategic Sectors and CED areas could be considered. The Committee agreed that the proper appraisal of such submissions should be undertaken by the Mid-term Evaluation Steering Group, taking into consideration the original methodology and criteria used by the Plan Team, and also the findings of the Mid-term Evaluators. Based on this assessment, the Mid-term Evaluation Steering Group would make their recommendations to the Programme Monitoring Committee.

During November and December 2002, the mid-term evaluators undertook consultations with a representative sample of strategic partners. These partners were drawn from members of the PMonC, PManC and advisory groups who have a particular involvement in the implementation of the Programme and the delivery of the Regional Conversion Strategy. A more detailed survey of the wider partnership will be undertaken in 2003.

### **5.5.2 ERDF Grant Claims Procedure**

A two-part ERDF grant claims form is currently 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.

### **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 2002 due to delays in completing this manual, site visits and publicity checks were still undertaken by PME staff during the year as part of their interaction with partner organisations. A full programme of project monitoring visits is planned for 2003 and a report on these visits will appear in the 2003 AIR.

As Implementing Authority, the Scottish Executive is 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 2002, a full programme of project verification visits is planned for 2003 and a report on these visits will appear in the 2003 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.

### **5.6 Business Process Improvements**

In 2002 the Scottish Executive and the five Scottish PME's began a major project to review and enhance the funding applications and claims processes for European Structural Funds in Scotland. The main aim is to streamline the processes involved and make them more accessible to project sponsors and those involved in programme management, whilst ensuring that they are supported by robust and reliable technical systems.

Following a period of successful testing in 2002, new application and claim forms are planned for introduction and widespread use in 2003. The key characteristics of these new forms are that they will be partly web-based, available for on-line drafting and completion. Other sections of the forms will use improved electronic document templates (in Microsoft Word). A particular process improvement will be the introduction later in 2003 of ‘turnaround’ claim forms for new projects. These will make full use of the information captured at the application and approval stage, in order to prepare a claim form with many of the essential project details already filled in. Prior to their formal introduction, staff from the PME and the Scottish Executive will undertake a series of seminars in 2003 in order to support partner organisations during the period of change.

The central systems and processes used by PME's and Scottish Executive staff have also been reviewed to improve efficiency and effectiveness. For the central systems to be effective, it is important that their data is complete and accurate. During 2002, great efforts have therefore been made by Scottish Executive and PME staff to ensure that all available electronic data has been loaded into the central database system and that this data is correct. This work has made significant demands on those involved.

## 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 2002 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 2002. The Scottish Executive VAC team was concentrating on the closure of the 1994 – 1999 Structural Funds Programmes. A programme of annual visits for both ERDF and ESF will however commence in January 2003, which will ensure that 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 2002

#### Summary of Financial Performance in Technical Assistance Measures in 2002

Financial Information expressed in £

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
4.1	0	0	£0	£505,729	£0	£252,865
4.2	2	2	£459,377	£135,729	£229,688	£67,868
<b>Total</b>	<b>2</b>	<b>2</b>	<b>£459,377</b>	<b>£641,458</b>	<b>£229,688</b>	<b>£320,733</b>

## Financial Information expressed in MEUROS

	No. of Projects appraised in 2002	No. of Projects approved in 2002	Forecast Expenditure in 2002	Declared Expenditure in 2002	Grant Committed in 2002	Grant Paid in 2002
4.1	0	0	0	0.791	0	0.395
4.2	2	2	0.718	0.212	0.359	0.106
<b>Total</b>	<b>2</b>	<b>2</b>	<b>0.718</b>	<b>1.003</b>	<b>0.359</b>	<b>0.501</b>

Summary of Financial Performance in Technical Assistance Measures as at 31 December 2002

## Financial Information expressed in £

	Total No. of Projects appraised	Total No. of Projects approved	Total Forecast Expenditure	Total Declared Expenditure	Total Grant Committed	Total Grant Paid
4.1	1	1	£4,302,542	£1,159,629	£2,151,271	£579,815
4.2	3	3	£1,255,877	£135,873	£627,938	£67,940
<b>Total</b>	<b>4</b>	<b>4</b>	<b>£5,558,419</b>	<b>£1,295,502</b>	<b>£2,779,209</b>	<b>£647,755</b>

## Financial Information expressed in MEUROS

	Total No. of Projects appraised	Total No. of Projects approved	Total Forecast Expenditure	Total Declared Expenditure	Total Grant Committed	Total Grant Paid
4.1	1	1	6.900	1.839	3.449	0.920
4.2	3	3	1.996	0.212	0.997	0.106
<b>Total</b>	<b>4</b>	<b>4</b>	<b>8.896</b>	<b>2.051</b>	<b>4.446</b>	<b>1.026</b>

### **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.

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***

In addition to funding the costs of the PME, the Monitoring Committee approved two new technical assistance projects during 2002. These schemes were from SCVO and Scottish Enterprise Edinburgh & Lothian and were supported from Measure 4.2. The former related to awareness-raising and development support provided by SCVO to small voluntary organisations in 2000 and 2001. The other project involves a contribution towards the start-up and running costs of a labour market information unit in the Lothians.

## **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 2002 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 2002.

### **7.3 Competition Policy (State Aids)**

The application of State Aids Regulations has led to delays in the Programme in progressing applications for projects on venture capital, ICT (broadband) and credit union activity. All approved projects in the Programme have been assessed in accordance with State Aids intensity ceilings and are at de minimis levels or are covered by Block Exemptions. Issues around State Aids approval have contributed significantly to poor commitment levels in certain Programme measures, leading in turn to delays in project implementation and added difficulties in meeting Programme expenditure targets.

Notwithstanding the above difficulties, it should also be noted that during 2002 there was increased co-ordination on State Aids issues between the Scottish Executive Managing Authority, the Scottish Executive State Aids Unit and the Programme Executive. This has undoubtedly facilitated increased knowledge of State Aids Regulations within the Programme Executive and a greater level of awareness within partner organisations. In particular, an accessible website on State Aids in Scotland was developed in 2002 by the Scottish Executive State Aids Unit and prospective project sponsors were referred to it where appropriate.

#### **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 2002, SNH and SEPA played an active part in ensuring that projects considered for funding were compatible with Community and national environmental policies

#### **7.5 Award of Public Contracts**

There have been eight ERDF projects supported to date in the Programme that have been required to advertise in the Official Journal of the European Communities. These are listed below:

- *ESE/ERDF/01/22/0026 – Roslin BioCentre Phase 2.* The OJ reference number was 99/S125-92400/EN and the date of advertisement was 22 June 2001;
- *ESE/ERDF/01/22/0027 – Biomanufacturing Campus.* The OJ reference number was 99/S196-138327/EN and the date of advertisement was 08 October 1999;
- *EST/ERDF/01/22/0039 – Forthside Visitor Management Programme Phase II.* The OJ reference number was 98/S115-74767/EN and the date of advertisement was 17 June 1998;
- *ESE/ERDF/01/22/0043 – Clackmannanshire Innovation: Centre for Creative Industries and Enterprise.* The OJ reference number was 2001/S136-093049/EN and the date of advertisement was 18 July 2001;
- *ESE/ERDF/02/22/0056 – Fife Tourism Centre of Excellence.* The OJ reference number was 159499-2001 and the date of advertisement was 01 December 2001;

- *EST/ERDF/02/22/0079 – Edinburgh Biomedical Research Institute.* The OJ reference number was EC/0168/RIB and the date of advertisement was 28 January 2002;
- *ESE/ERDF/01/32/0030 – Clackmannanshire Innovation: Centre for Social and Entrepreneurial Activity.* The OJ reference number was 2001/S136-093049/EN and the date of advertisement was 18 July 2001; and,
- *ESE/ERDF/01/22/0006 – Business Learning Access Centre.* The original OJ reference number was 128456/2001 and the date of advertisement was 28 September 2001. Due to the size of the project and the nature of the work undertaken, more than one OJ advertisement has been necessary. These are detailed below in chronological order:
  - Construction: OJ Number 122316/2001, 15 September 2001
  - Architectural Design: OJ Number 123216/2002, 18 September 2001
  - Construction: OJ Number 13321/2002, 25 January 2002
  - Temporary Accommodation: OJ Number 14057/2002, 26 January 2002
  - Architectural Design: OJ Number 4675/2002, 26 March 2002
  - Construction: OJ Number 6065/2002, 20 April 2002
  - Construction: OJ Number 150133/2002, 02 October 2002
  - Construction: OJ Number 201478/2002, 31 December 2002

## **7.6 Consistency Between Funds - EIB**

The European Investment Bank (EIB), although providing Scotland with assistance in the form of support to transport, infrastructure and environmental projects has as yet had no relevance in terms of consistency with Structural Funds. Discussions between the EIB and Scottish Executive Ministers took place during 2002 regarding the possibility of using EIB funding to support particular policy areas. However this was outwith the context of the Structural Funds and it is unlikely the Scottish Executive will be looking towards the EIB to compensate for the possible decline in structural funds post 2006.

The Scottish Executive European Structural Funds Division will continue to monitor any proposed investment in Scotland by the EIB and ensure the co-ordination between funds where appropriate.

## **7.7 Consistency Between Funds – LEADER +**

LEADER+ is one of four Community Initiatives operating in Scotland between 2000 – 2006. The Programme is designed to encourage new ideas and provide support for sustainable rural development. LEADER+ in Scotland was approved on January 2002. Following approval 13 Local Action Groups were appointed to implement LEADER+ at the local level and were invited to submit final business plans. The business plans were all finalised by August 2002.

The 13 successful groups are as follows:

- Argyll, The Islands and Lochaber
- Cairngorms
- Dumfries and Galloway
- East Fife
- Lomond & Rural Stirling
- Moray
- North Highland
- Northern Isles Leader+ Partnership
- Rural Tayside
- South Lanarkshire Rural Partnership
- Scottish Borders
- Tyne/Esk (East Lothian/Midlothian)
- Western Isles, Skye and Lochalsh

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

## **7.8 Consistency With Common Agricultural Policy (CAP)**

The Rural Scotland Development Programme (SDRP) implements the relevant measures in Regulation 1257/1999. These comprise Less Favoured Areas (Articles 13-21); Agri-environment (Articles 22-24); Other Forestry measures (Article 30) and Afforestation of Agricultural Land (Article 31). It takes full account of CAP rules on compatibility by ensuring that all applications and payments made are verified through audit procedures. The SRDP brings together the accompanying measures being taken forward in Scotland. These form part of a wider series of rural development activities.

## **7.9 Global Grants**

Currently, no global grants operate under the Programme.



## **7.10 Large Projects**

A Large Project application form was completed for EST/ERDF/02/22/079 – Edinburgh Biomedical Research Institute and submitted along with a cost benefit analysis and an environmental assessment to the Commission in November 2002. The Commission approved this application on 15 January 2003.

## **7.11 Communications Action Plan**

During 2002, a number of activities consistent with the Communications Action Plan within the Programme Complement were undertaken. These included the provision of guidance and advice to partner organisations via written material, face-to-face surgeries and a partnership newsletter.

### 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.

Once fully operational, it will contain details on:

- Programme Structures - membership and roles of Committees and Advisory Groups, minutes of meetings;
- ERDF Application process advice and guidance;
- Details of Priorities and Measures with case studies;
- Horizontal theme guidance and case studies;
- Downloadable documents – Programme complement, AIR's and Final Reports from previous programmes; and,
- Programme news updates.

### Guidance and Documents for Applicants

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 2002, these press releases coincided with visits to a number of projects by Scottish Executive Ministers.

### Planned Activity

During 2003 the focus for communications activity will be on undertaking seminars across the East of Scotland to update partners on the new application and claim forms. In addition, there will be targeted training workshops on the horizontal themes. Major improvements are also planned for the ESEP website in order to take account of the business process changes and incorporate links to the Scottish Executive Data Capture System.